FINANCIAL TIMES

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WORLD NEWS

Kosovo massacre may prompt calls for Nato action

A massacre of Kosovan women and children, allegedly committed by special police units, has overshadowed Serbia's announcement of a ceasefire and might add to calls for Nato intervention. Page 3

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Gerhard Schröder, Germany's chancellor-elect, pledged to take a visible and active role in creating jobs, warning his government would be judged at the next election on its record for cutting unemployment. Page 2

Concern over US defence readiness
The chairman of the US joint chiefs of staff, General Henry Shelton, said the armed forces were showing "increased signs of serious wear," and there was evidence that their long-term health was in jeopardy. Page 3

France cautioned on genetic crops
The European Commission indicated France's decision to delay authorisation for the marketing of a genetically modified maize developed by Switzerland's Novartis might be illegal under European Union law.

Possible post for Israeli hardliner
Benjamin Netanyahu, the Israeli prime minister, may offer hardliner Ariel Sharon the post of foreign minister in a bid to buy off Jewish settlers who are threatening to topple the government. Page 4

Japan ponders N Korea funding
Japan is ready to consider lifting its freeze on funds for building light-water nuclear reactors in North Korea, foreign minister Masahiko Komura said. Page 6

Cognac growers in tax protest
Cognac grape growers blocked roads in the region to demand state aid and tax cuts to help them cope with declining sales.

Kyrgyzstan to join WTO
Kyrgyzstan will be admitted to the World Trade Organisation on October 14, becoming the first ex-Soviet nation to join the trading group.

Albanians choose successor
Albania's ruling Socialists nominated Pandeli Majko, the party's secretary-general, to succeed Fatos Nano as prime minister heading a five-party coalition. Page 3

Moscow faces rabies threat
Some 80 rabid animals have been identified in the Moscow region this year, raising fears of an epidemic of the kind last seen in the chaotic period after the second world war.

EU and Africa launch trade talks
The European Union and 71 African, Caribbean and Pacific countries today launch negotiations on a sweeping shake-up of the Lomé Convention, their 23-year-old trade-and-aid agreement. Page 5

Rethink sought on debt relief
The framework for poor country debt relief put in place by the World Bank and International Monetary Fund two years ago "needs to be substantially improved", according to Commonwealth officials. Page 4; Strains showing, Page 13

Viewers balk at hamster death
A television advertisement for Levi's jeans featuring the death of a hamster set a British record for viewer complaints.

BUSINESS NEWS

Goldman Sachs appoints 160 new managing directors

Goldman Sachs, the investment bank, has appointed 160 new managing directors who will be eligible for the firm's highly prized partnerships, due to be handed out next month. The move comes as the firm seeks to retain staff. Page 15

EFFAS, the European Federation of Financial Analysts Societies, has ordered members to quote investment fund values and performance numbers in euros from January 1 when European monetary union is launched. Barry Riley, Page 15

Luigi Fausti, chairman of Banca Commerciale Italiana, was forced to step down in a fierce boardroom showdown engineered by Mediobanca, the Milan investment bank trying to forge a merger between BCI and Banca di Roma. Page 15

Daiwa Securities, Japan's second-largest broker, is to cut at least 800 of its 1,800 overseas staff before April as part of a large scale-back of its international operations. Page 15

Metra, the Finnish engineering, ceramics and steel group, warned that Asian problems and cost overruns would undermine profits at Wärtsilä NSD, its largest division. Page 20

Carmakers in Australia may be forced to suspend production after last week's explosion at a gas processing plant in Victoria state crippled the region's industry. Page 16

Ericsson, the Swedish telecoms group, announced the departure of Infocom Systems divisional director Anders Igel. His job is expected to disappear under restructuring. Page 18

Alitalia, the Italian national airline, showed further signs of a turnround which started eight months ago with an 83 per cent increase in underlying first-half profits. Page 18

FöreningsSparbanken, the Swedish lender, lifted its stake in Hansapank, Estonia's largest bank, to almost 50 per cent after buying out a minority stake held by Swedish rival SEB. Page 18

UBS's two top executives moved to shore up morale at the embattled bank as Switzerland's chief banking regulator questioned its risk management and controls. Page 18

World shipping may need to raise up to $160bn over five years to finance the purchase of vessels, according to Drewry Shipping Consultants. Page 5

Olivetti has narrowed its pre-tax loss for the first half year to L89bn ($53m) from the L334bn posted for the same period of 1997. Page 18

Embraer, the Brazilian aircraft manufacturer, is in talks with foreign manufacturers about a possible partnership involving the sale of a minority stake. Page 17

Philips, the Dutch electronics group, agreed the sale of part of its components activities for around Fl 1bn ($500m). Page 18

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 23

Fed reduces interest rates in response to global turmoil

Quarter-point cut first for three years but markets remain largely unmoved

By Gerard Baker in Washington

The US Federal Reserve yesterday nudged interest rates lower for the first time in nearly three years in response to the deepening international financial crisis.

The central bank's open market committee reduced the target for its Federal funds rate - its main lending rate - by a quarter of one per cent to 5.25 per cent.

The Fed said the action had been taken "to cushion the effects on prospective economic growth in the United States of increasing weakness in foreign economies". It added that policymakers were concerned about tightening credit conditions in the United States.

The cut marked a shift in Fed policy for the first time in a year. Interest rates were last changed in March 1997, when the central bank raised the Fed funds rate in a pre-emptive strike against inflationary pressures. The last time the Fed lowered rates was in early 1996.

US stocks initially reacted negatively to the news, while bond prices rose. Investors had been hoping for a bigger cut in recognition of the severity of the global economic crisis. The Dow Jones Industrial Average was down about 50 points on the day about an hour before the close.

But a bigger interest rate move would have been out of line with past practice and might have signalled to the markets that policymakers had become alarmed about international economic conditions. When the Fed has changed the direction of its policy in the last few years it has tended to take it slowly, with just a quarter-point move.

Another factor that restrained the Fed was the solid growth of the US economy. In the first six months of 1998, the economy expanded at an annual rate of more than 3 per cent, comfortably above what most economists regard as a sustainable pace. In the last few months, the pace seems to have cooled as international conditions have deteriorated but output continues to expand.

A cut in short-term interest rates had been widely expected following strong hints last week by Alan Greenspan, the Fed chairman, that the international turmoil was placing greater pressure than ever on US financial markets.

Yesterday the latest sign of weaker economic conditions emerged with a report that indicated consumer confidence fell sharply this month. The Conference Board, an independent research group, said its main index of confidence fell by seven points in September, the largest one-month drop since January.

Wolfgang Münchau adds: In Europe, the Fed's move will put pressure on Italy, Spain, Portugal and Ireland to cut their short-term rates to the level of France and Germany, 3.3 per cent, but the governing council of Germany's Bundesbank is expected to leave interest rates unchanged at its regular meeting tomorrow.

A senior German central banker hinted this week the European Central Bank might have to cut interest rates next year, if the uncertainty in international financial markets persists.

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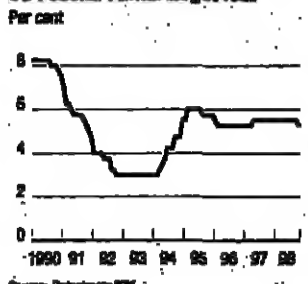
US Federal Funds target rate
Per cent



Source: Datastream/ICV

Malaysia's sacked deputy prime minister Anwar Ibrahim, clearly showing a black eye, leaves a Kuala Lumpur court yesterday after pleading not guilty to charges of corruption and illegal sexual acts. He claims he was beaten unconscious after being arrested on September 20. Report, Page 14 Reuters

China orders companies to repatriate dollar holdings

By James Kynge in Beijing

China yesterday ordered local enterprises to repatriate by tomorrow billions of US dollars they are believed to hold illegally, signalling an intensification in the country's battle against an alarming flight of capital.

The order was part of a series of measures China was taking to bolster increasingly fragile confidence in its currency, the renminbi, and the wider financial system.

Some of the measures, such as a planned crackdown on illegal activities among Chinese import agents, could significantly disrupt the operations of foreign companies that export to China through such agents. Other restrictions on foreign companies borrowing in renminbi, which were also announced yesterday, might hamper the inflow of foreign investment, executives and analysts said.

Wu Xiaoling, the director-general of the State Administration for Foreign Exchange, acknowledged as she announced the measures that they would "inconvenience" foreign investors, but stressed that China remained committed to its "open door" policy.

Ms Wu warned that Chinese companies that failed to comply with the order on repatriating funds would be punished, but she did not say how.

It was unclear how much Chinese companies have deposited overseas but an official newspaper said they held about $20bn in foreign currency.

Companies use a number of schemes to get round a prohibition on sending foreign currency offshore for anything but trade purposes. The most common is faking customs documents.

Analysts said a repatriation of several billion dollars by tomorrow could have an impact on Hong Kong, where much of the money is believed to be kept.

China hopes that the measures will ease market pressure on the government to devalue the renminbi by curbing capital flight and boosting domestic foreign exchange reserves.

Although the renminbi is officially fixed at about RMB8.28 to one US dollar, the currency's black market rate is now at its lowest level this year.

Ms Wu yesterday appeared to confirm a shifting stance on the issue of devaluation. Asked if China promised not to devalue in 1999, she said: "No one can promise whether a currency will be devalued or not."

The extent of China's capital flight cannot be accurately measured but indications are that it is considerable. Despite a trade surplus so far this year of $31.3bn and foreign investment inflows of $27bn, the country's $140bn in foreign currency reserves – viewed in China as an indication of the country's ability to withstand pressure to devalue – has hardly risen since the start of the year.

The immobile foreign reserves figure has been a cause for disquiet among Chinese companies and individuals, raising fears that Beijing would be forced to devalue despite its repeated pledges that it would not do so this year.

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Small groups told to reveal accounts

By Jim Kelly

Germany's secretive small and medium-sized companies – the *mittelstand* – will be obliged to open their accounts to public view following a decision by the European Court of Justice yesterday.

It is the result of a 15-year campaign waged by businesses based in other European Union countries, and will force hundreds of thousands of *mittelstand* groups to fall into line with the rest of the EU.

The German government must devise "stronger sanctions" to *force companies to register their* accounts publicly. The court was told only 10-20 per cent of *mittelstand* companies did so as there were no penalties for breaking the rules.

Business organisations around Europe were angry members could not examine the accounts of many German companies when making business decisions.

The court said the German government had "failed to fulfil its obligations" under the European directives and provide for "appropriate penalties" to be imposed on companies if they did not register. It ordered Bonn to pay the costs of the action brought by the European Commission.

EU business leaders were surprised and delighted by a verdict that overturned the opinion of the Advocate General: "They had dragged their feet for years while they had access to accounts everywhere else," said one.

Only around 10 per cent of the 600,000 companies in Germany obliged to publish their accounts do so, compared with 80 per cent of those in the UK and France and 90 per cent of those in Denmark.

Germany's *mittelstand* lobby had effectively blocked change for 15 years, saying disclosure would give away sensitive information to competitors and reveal directors' earnings.

"The only people standing to benefit from the publication of my corporate accounts would be *my competitors," said a computer* dealer in Munich before the judgement.

Others said compulsory publication had not stopped a string of corporate scandals, such as that at Polly Peck, a collapsed UK conglomerate.

Under present rules in Germany, only narrowly defined interested groups such as creditors and works councils can oblige companies to register accounts, and then only by going to court.

The German government argued it had enforced EU directives by giving interested parties access to the accounts. Failure to comply with the verdict could lead to a fine. Officials expect private legal actions to be launched by groups still frustrated by lack of access to the accounts of German companies.

WORLD MARKETS

STOCK MARKET INDICES		
New York Lunchtime		
Dow Jones Ind Av	8116.30	(+7.48)
NASDAQ Composite	1738.74	(−0.48)
Europe and Far East		
CAC40	3337.05	(−0.59)
DAX	4578.27	(−75.67)
FTSE 100	5108.7	(+15.2)
Nikkei	13821.43	(−87.94)
US Lunchtime RATES		
Federal Funds	5.437%	
3-mth Treas Bills: Yld	4.43%	
Long Bond	105½	
Yield	5.14%	
OTHER RATES		
UK: 3-mo Interbank	7¼%	(same)
UK: 10 yr Gilt	117.0313	(117.203)
France: 10 yr OAT	109.09	(108.97)
Germany: 10 yr Bund	109.52	(109.35)
Japan: 10 yr JGB	115.12	(115.32)
NORTH SEA OIL (Argus)		
Brent Dated	$14.37	(14.39)

GOLD		
New York Comex		
	$294.2	(295.3)
London		
	$294.35	(293.35)
EXCHANGE RATES		
Dollar		
New York Lunchtime		
£	1.712	
DM	1.67385	
FFr	5.6122	
SFr	1.3893	
Y	134.1	
London		
£	1.7065	(1.7041)
DM	1.678	(1.6806)
FFr	5.6256	(5.6347)
SFr	1.3905	(1.3924)
Y	134.01	(136.38)
Tokyo Close		Y 138.05
Sterling		
DM	2.8635	(2.8639)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Bahrain	[illegible]	Bulgaria	[illegible]	Cyprus	[illegible]
Denmark	[illegible]	Estonia	[illegible]	Finland	[illegible]
France	FFr12.50	Gibraltar	[illegible]	Greece	[illegible]
Hungary	[illegible]	Iceland	[illegible]	Italy	[illegible]
Jordan	[illegible]	Kuwait	[illegible]	Latvia	[illegible]
Lithuania	[illegible]	Luxembourg	[illegible]	Morocco	[illegible]
Netherlands	[illegible]	Nigeria	[illegible]	Norway	[illegible]
Oman	[illegible]	Poland	[illegible]	Portugal	[illegible]
Qatar	[illegible]	S.Arabia	[illegible]	S.Africa	[illegible]
Spain	[illegible]	Sweden	[illegible]	Syria	[illegible]
Switzerland	[illegible]	Turkey	[illegible]	UAE	[illegible]

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French embrace Schröder before he can turn his head

The speed with which Chirac moved to issue the chancellor-elect with an invitation to visit Paris speaks volumes about concerns that he might be tempted in directions less in keeping with traditional Franco-German relations, writes **Robert Graham**

Schröder met Jospin (left) during a visit to Paris in July AP

There could scarcely be a more clear-cut symbol of the importance of the Franco-German alliance than the visit to Paris today of Gerhard Schröder even before he has formed Germany's new Social Democrat-led government in the wake of his triumph in the country's elections on Sunday.

The ready response from the incoming German chancellor to a rapid invitation from President Jacques Chirac late on Sunday underlines the mutual need to establish a proper working relationship to ensure the political and economic stability of the European Union.

However, the French are the ones forcing the pace. The alacrity of President Chirac's invitation is an eloquent comment on Paris's concern that the new German leader might be tempted to make subtle shifts of emphasis in policy to the prejudice of France.

French officials see Mr Schröder being tempted in three possible directions – turning Germany more in on itself; a foreign policy focus that looks further to the east with EU enlargement; and a move to bring the UK more into a triangular partnership of the Big Three European nations. Any one of these, or any combination, could reduce France's current weight in Europe, especially if Germany is more assertive of its own interests.

At the level of French domestic politics, the departure of Chancellor Helmut Kohl heralds an awkward period of adjustment in the co-habitation between President Chirac and Mr Lionel Jospin, the prime minister. Foreign policy is the constitutional responsibility of the French president, and over the years the Franco-German relationship has been most subject to personal contact between the French presidency and the German chancellor.

The departure of Helmut Kohl heralds an awkward period of adjustment

However, Mr Jospin after almost 18 months in government not only feels more confident in foreign affairs but that the euro-zone has enough implications for domestic policy for the prime minister's office also to play a formative role in the new Franco-German relationship. Mr Jospin, though closer to Oskar Lafontaine, the SPD party leader, has hosted Mr Schröder twice during the election campaign and there is a sense of political empathy.

Mr Jospin has also been astute in seconding Brigitte Sauzay, a former interpreter for the late President François Mitterrand during many Franco-German summits, to co-ordinate policies with Mr Schröder's headquarters during the election campaign. Ms Sauzay is now co-ordinating Franco-German relations with Mr Schröder.

By contrast President Chirac has not met Mr Schröder and carries conservative nationalist ideological baggage. His approach to problems has been often confrontational and is regarded to have unnecessarily antagonised the Germans last year when he championed a French candidate to run the new European Central Bank.

In moving so fast to meet Mr Schröder, President Chirac is thus also seeking to demonstrate he can still orchestrate the Franco-German dialogue. However, the fact that Mr Schröder is devoting the bulk of his time today to Mr Jospin may signal the president is no longer able to hold such primacy. Government officials also point out President Chirac has most to lose if the UK were brought more into the Bonn-Paris axis.

President Chirac took the unusual step of penning a commentary to both Le Figaro, the French newspaper, and the Frankfurter Allgemeine Zeitung, Germany's most influential paper, yesterday in which he rejected the idea that the end of the cold war had removed the rationale for the Franco-German alliance formalised by treaty since 1963. "The continued construction of Europe is only possible with a solid and dynamic Franco-German relationship," he wrote.

Implicit in such comments is the realisation that the changeover in Bonn comes at a time when Franco-German relations have stagnated. "It has always been a marriage of reason not love," observed one official. Thus, rather like a long-married couple, they have become more easily irritable, less willing to make concessions to each other with the years.

At the last bi-annual Franco-German summit in Avignon, the two sides had little to say in common and the coming of the German election clearly held back any initiative.

Matters have been so uncertain that no date was fixed before the election for the next venue in Germany later this year.

The combination of drift and the wait for the electoral outcome has tended to accentuate the differences rather than the points of convergence. The differences range from political control over the euro, attitudes to Nato and the emphasis on enlargement as well as sensitive domestic topics such as reform of the Common Agricultural Policy and the size of Germany's EU budget contribution.

In the coming weeks the French will be interested in finding new areas of convergence as well as discussing how more solid foundations can be given to the alliance.

These could include a new institutional framework for the alliance and ways to make the relationship less "top-down" and so prevent French and Germans becoming increasingly indifferent to each other.

BONN CHANGEOVER SPD CHANCELLOR-ELECT UNVEILS NEW STYLE OF GOVERNMENT

German leader vows action over jobs

By Peter Norman in Bonn

Gerhard Schröder, Germany's chancellor-elect, yesterday pledged to take a visible and active role in creating jobs, warning Social Democratic party parliamentarians that his government would be judged at the next election on its record for cutting unemployment.

Unveiling a new style of government, Mr Schröder said Bonn cabinet committees would work with the governments of Germany's federal states to achieve progress on key job-creating initiatives. People's faith in politics would be strengthened if they could see progress on visible projects, he told a special meeting of old and new SPD MPs in Bonn.

Mr Schröder made clear that he was seeking a different style of politics in Germany. With overtones of the "cool Britannia" concept of Tony Blair, the British prime minister, Mr Schröder said governing should be fun as well as a duty. He wanted to harness the euphoria of Sunday's election victory to push the country forward.

Yesterday's arrival of the old and new MPs in Bonn was reminiscent of the start of a new school year. The 58 SPD newcomers were allocated post boxes and given information packs, passes to the parliament buildings and a much-prized rail pass allowing free first class travel the length and breadth of Germany.

The newcomers introduced themselves. Some, such as Oskar Lafontaine, the SPD leader, Franz Müntefering, the architect of the victorious election campaign, and Mr Schröder himself were celebrities, returning to the Bundestag after years of politicking in Germany's federal states. Others, such as 22-year-old Carsten Schneider of Erfurt, the youngest MP in the new Bundestag, were at the start of their political careers.

Mr Schröder arrived late, after aircraft trouble in Hanover. The delay left the normally voluble Mr Lafontaine temporarily lost for words until, to general surprise, he launched into a homily on the possible impact of US monetary policy on the work of SPD MPs in Bonn.

Still basking in the glow of Sunday's triumph, the SPD broke with tradition and allowed the press into the first part of its meeting.

There was no such transparency 100 metres away when MPs of Helmut Kohl's Christian Democratic Union and the Bavarian Christian Social Union gathered in the wake of their worst election defeat since 1949. In addition to information packs and rail passes, new CDU/CSU MPs were given the job resumés of parliamentary support staff laid off since Sunday, when 50 CDU/CSU MPs lost their seats.

The CDU moved swiftly to prevent a power vacuum at the top following Mr Kohl's decision to step down as party chairman at a congress on November 7. Mr Kohl announced Wolfgang Schäuble, wheelchair-bound leader of the CDU/CSU MPs, would also be CDU leader amid expectations that the congress will give the plan overwhelming support.

In Munich, Edmund Stoiber, the premier of Bavaria, confirmed he would seek election as CSU leader when Theo Waigel, the outgoing finance minister, steps down early next year.

PDS poll success brings it in from the cold

By Frederick Stüdemann in Berlin

East Germany's former communists, the Party of Democratic Socialism, are poised to take a significant step towards legitimisation following their relatively strong showing in Sunday's general election, which grants the party parliamentary and financial benefits.

As well as nominating a deputy speaker of the Bundestag, the PDS expects to be given the chair of at least one parliamentary committee. The party will also receive federal funding for its think-tank.

These moves – which the PDS sees as further evidence of "normalisation" for a party which, due its associations with communism, has been ostracised by the mainstream parties – follow the achievement of full parliamentary party status by winning over 5 per cent of the national vote.

In the last parliament the PDS was simply a parliamentary "group" as the party had not won 5 per cent and entered the Bundestag only by winning more than three direct constituency seats, the other criteria for representation.

The outgoing Christian Democratic Union yesterday signalled it might try to overturn a ruling which allows all parties in parliament to nominate at least one deputy speaker, in a bid to exclude the PDS from holding such a post.

At the age of 70, Fred Gebhardt, one of the 35 PDS parliamentarians, will be the oldest member of the Bundestag, and thus as "father of the house" will give the opening speech when parliament reconvenes in late October.

His speech will be an interesting test of whether the arrival of a new government for the first time in 16 years is accompanied with a change in tone towards the former communists.

In 1994 the PDS also had the oldest parliamentarian in Stefan Heym, the novelist. Members of the main parties refused to applause his speech.

Gregor Gysi, the proposed parliamentary party leader, who has already acquired a national reputation for quick-witted and amusing rhetoric, said the PDS had acquired "a new quality" and would be able to provide a vigorous "leftwing, social pressure" on the Social Democrat-led government of Gerhard Schröder, the chancellor-elect.

ECONOMIC POLICY 'ALLIANCE FOR WORK' AND TAX CUTS PLAN WILL FORM BASIS FOR COALITION TALKS

Lafontaine holds fire on finance job

By Ralph Atkins in Bonn

Oskar Lafontaine, Social Democrat party (SPD) chairman, has yet to decide if he wants to cash in a pre-election promise by Chancellor-designate Gerhard Schröder, and head the Bonn finance ministry. He has already outlined an economic policy for the incoming government.

In contrast to the supply-side oriented policies of Helmut Kohl's departing government, Mr Lafontaine backs international co-operation to curb excessive financial market speculation and create jobs.

He would seek to boost demand through tax cuts and productivity-oriented wage increases, but insists state finances must be strictly controlled. Mr Schröder would lead an "alliance for jobs", combining the state, employers and the unions.

The programme will form the basis of coalition talks starting on Friday with the Green party, which will also determine whether Mr Lafontaine becomes finance minister or leader of the SPD's parliamentary party.

As Mr Schröder has this week sought to assume the role on the international stage left vacant by Mr Kohl, he adopted Mr Lafontaine's ideas for a new international financial architecture.

The US dollar and euro would become "stability anchors" in a system, modelled on the 1970s European currency snake, for setting target zones for the main international currencies.

Mr Schröder said Group of Seven meetings of leading industrialised countries should no longer be occasions where "anything and everything" is discussed.

The summits should revert to their original role as international economic policy co-ordination meetings, as envisaged in 1975 by their creator, Helmut Schmidt, Germany's last Social Democratic chancellor.

An incoming SPD-led government would support a Europe-wide job creation initiative, the topic of Mr Schröder's discussions in Paris today. Mr Lafontaine has indicated that that could include leaning on European central banks to loosen monetary policy.

US monetary policy could be "a good example", Mr Lafontaine said. Dollar weakness had contributed to full employment, and Alan Greenspan, US Federal Reserve chairman, was touting a cut in interest rates against the backdrop of a difficult world economic climate.

At home, the SPD's tax policy envisages giving domestic demand a "decisive impulse" through cuts worth DM2,500 ($1,322) a year to a family on average earnings. The basic income tax rate would fall from 25.9 to 21.9 per cent initially, then eventually to 15 per cent; the top rate from 53 to 49 per cent.

Mr Lafontaine wants to ensure public finances are on a solid footing. Cuts would be largely offset by closing tax loopholes and the planned tax package's overall effect would be modest, with total net cuts of about DM10bn.

Mr Lafontaine could create more room for manoeuvre if he stands by his pledges to implement firm government spending curbs. SPD plans, prepared in opposition, call for a "lasting reduction in state borrowing".

Spending growth would be kept "clearly below" growth in nominal gross domestic product. Prior to his election, Mr Schröder insisted the SPD manifesto was "realistic" and that in government all measures would be tested against the yardstick of whether they created jobs.

The SPD would seek to boost Germany's attractiveness as a location for creating jobs by cutting non-wage labour costs. It would fund cuts in state social insurance contributions through an "ecological tax reform".

Similar ideas have been floated by the Greens. But the Greens go much further, backing a tripling of petrol prices to DM5 a litre. Mr Schröder will not go so far.

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Bank plea to Slovak parties

By Kevin Done and Robert Anderson in Bratislava

Vladimir Masar, governor of the National Bank of Slovakia, urged the country's political leaders to form a new government quickly after last weekend's general election and take action to combat the country's mounting economic problems.

The government's budget deficit is running far in excess of the 1998 target, while the unsustainably large deficit in the balance of payments current account is exerting heavy pressure on the Slovak currency, which financial markets believe to be significantly overvalued.

Ivan Gasparovic, speaker of the Slovak parliament, yesterday called on Vladimir Meciar, the prime minister, to make the first attempt to form a new government, despite the ruling coalition's heavy defeat by an alliance of opposition parties led by the Slovak Democratic Coalition.

Mr Meciar's nationalist Movement for a Democratic Slovakia (HZDS), of which Mr Gasparovic is a leading member, narrowly emerged as the largest single party with 27 per cent of the votes and 43 seats. Of its current allies the leftist Association of Slovak Workers failed to win any seats, and together with its other coalition partner, the Slovak National Party, it can muster only 57 seats in the 150-seat parliament.

Leaders of the four opposition groups, which together won 93 seats, have all pledged not to co-operate with Mr Meciar but to try to form their own government.

Jozef Migas, leader of the reformed communist Party of the Democratic Left, said yesterday it was "unacceptable" to form a government coalition with Mr Meciar's party. "The only alternative for creation of a government is with the current opposition parties."

The HZDS would need the support of the reformed communists to have any hope of continuing in government.

The new government will inherit mounting economic problems, and yesterday the highly illiquid Bratislava stock exchange fell to its lowest level since the bourse was opened in January 1994, with the index falling 4 per cent to close at 101.96.

The central bank governor warned against a devaluation of the Slovak crown as a way of solving the country's economic difficulties.

The deficit in the balance of payments current account is running at close to 11 per cent of gross domestic product compared with the government's target for 1998 of less than 6 per cent. Mr Masar said Slovakia had to improve the structure of its foreign trade to cut dependence on commodity exports.

Instead of devaluing the currency the incoming government had to act to cut domestic consumption including public spending and had to enforce greater financial discipline, he said.

Highly indebted companies "must be allowed to go bankrupt" rather than being allowed to continue borrowing and driving up wages. "Bankruptcy is one of the most important instruments for increasing financial discipline."

NEWS DIGEST

NORWEGIAN BUDGET LEAKED

Child support expansion may mean rise in tax

Details leaked of the budget that Norway's government will present to parliament next week have confirmed fears that the minority centre-led coalition is heading for a clash and may be forced to resign.

According to an article in the daily Dagbladet, the government will propose tightening next year's budget by NKr10bn ($1.3bn) while still allowing NKr2.8bn to expand child support payments to include two-year-olds.

The government is expected to fund these increased expenditures by raising taxes.

Among some of the reported proposals are a 1 percentage point rise in income tax to 29 per cent, removing tax deductions for offshore workers, increasing property tax assessment rates by 10 per cent, and raising fees on electricity, heating oil, and rolling tobacco.

Such a budget would fulfil government promises to support a welfare state. At the same time, it is certain to anger opposition parties and spells trouble for the budget debate. released **Valeria Sköld, Oslo**

UKRAINE

Outcry over Nato proposal

Ukrainian parliamentary deputies shouted down the speaker of Russia's parliament yesterday, after he addressed them with a proposal to abandon hopes of joining Nato and form a union with Russia and Belarus.

The hecklers, mainly from the Nationalist Rukh political party but including several from the pro-government Popular Democratic party, forced Gennady Seleznyev, speaker of the Duma, to stop his speech.

Leonid Kuchma, Ukraine's president, yesterday said he was "categorically against" forming a "union of three" with Russia and Belarus, as the Russian-Belarus union formed in 1996 had given these countries "nothing". Mr Kuchma did, however, say he was interested in developing further economic relations with both countries. On September 18 he met Boris Yeltsin, the Russian president, to discuss improving trade relations. **Charles Clover, Kiev**

SPAIN AND EMU

Budget aims to reduce deficit

Spain's centre-right government yesterday sent parliament its first budget for the era of European economic and monetary union, aiming to reduce its deficit to a level which places it a year ahead of its original convergence plans.

The overall public deficit is set to drop to 1.6 per cent of gross domestic product from 2.1 per cent expected this year.

Rodrigo Rato, finance minister, said he would seek a pact with regional administrations to eliminate their share of the deficit – 0.2 per cent of GDP – over the next three years. The government is counting on the economy remaining strong enough to boost revenues by 4.8 per cent next year despite cuts in income tax rates.

Public expenditure is set to rise by 3.8 per cent, with a 9.3 per cent increase for health and 6.5 per cent for education, the biggest-spending departments.

Tax cuts are expected to generate enough household spending to contribute 0.5 percentage points to growth, officially forecast at 3.8 per cent in real terms.

Mr Rato said this bullish forecast, slightly up on this year, made allowance for the revised outlook of Spain's main European customers and tougher import competition from countries with devalued currencies.
David White, Madrid

LITHUANIA

Capital gains tax approved

Lithuania's parliament yesterday approved a 15 per cent capital gains tax, which will be levied on Lithuanian investors from January 1. The decision was a compromise after negotiations between parliament, which had originally proposed a 29 per cent tax, and President Valdas Adamkus, who backed a lower tax.

In July brokers at the local bourse briefly stopped executing trades as a protest against the 29 per cent capital gains tax proposal. Brokers said the tax would deter locals from investing in the market, which is illiquid. "Our suggestion was that the tax should not be more than 10 per cent, but it's certainly better at 15 per cent than at 29 per cent," said Romas Matiukas, head of the Lithuanian Brokers' Association.

Local individual investors account for about 17 per cent of all investments on the Vilnius bourse. The law which was passed yesterday does not tax re-invested capital gains, and all profits below 3,000 litas ($750) are exempt from taxation. **Matej Vipotnik, Riga**

TURKISH-ITALIAN RELATIONS

Kurdish issue sparks row

Bulent Ecevit, Turkey's deputy prime minister, yesterday predicted that Italy's decision to allow members of the Kurdish parliament in exile to criticise Turkey's treatment of its Kurdish minority inside Rome's parliament would "alter relations between Turkey and Italy".

Ismail Cem, the Turkish foreign minister, had warned in a letter to Lamberto Dini, the Italian prime minister, that allowing members of the Brussels-based parliament in exile to participate in a press conference alongside Kurdish Italian deputies would strain ties with the nation that many Turks regard as their most loyal European ally.

Turkey contends the Kurdish parliament is a front for the Kurdish Workers' party (PKK), the guerrilla organisation which has spent the past 14 years fighting Turkey's army. Italy, in common with many European countries, has banned the PKK.

The Turkish foreign ministry said the decision to hold the event in Rome's parliament showed that "Turkey's peace of mind, stability and territorial integrity count for nothing". **Chris DeBellaigue, Ankara**

HOLOCAUST

Austria sets up commission

Austria set up an independent commission yesterday to investigate the claims of Austrian victims of the Nazi Holocaust, the chancellor's office said in a statement.

The commission will investigate and report on dispossessions made by the government during the Nazi occupation and on payments made by the republic of Austria since 1945. An estimated 65,000 Austrian Jews died in the Holocaust.

Creditanstalt, one of Austria's largest banks, is under scrutiny by Jewish groups after documents recently unearthed showed a business relationship with concentration camps in Poland during the second world war.
Reuters, Vienna

EUROPE

KOSOVO EVIDENCE POINTS TO ATROCITY AGAINST ETHNIC ALBANIAN CIVILIANS

Massacre overshadows Serb ceasefire claim

By Guy Dinmore in Gornje Obrinje, Serbia

Evidence came to light yesterday of one of the worst atrocities committed against ethnic Albanian civilians in Serbia's Kosovo province.

The massacre of women and children, allegedly committed by special police units on Saturday, has overshadowed the government's announcement of a ceasefire and, diplomats said, would add to calls for Nato intervention.

Senior western envoys, who toured Kosovo yesterday to see refugees and their ruined villages, were visibly shocked when handed a report written by the Kosovo Diplomatic Observer Mission on the latest atrocity.

In a thickly wooded gully near the village of Gornje Obrinje, some 15 miles west of Pristina, the provincial capital, diplomats and reporters found the bodies of five women and four children. The youngest was 18-month-old Valmiri Delija.

It was not clear how the infant had died but the others had been shot at close range in the back of the head as they tried to flee up the muddy slope.

Up the valley, the charred remains of 95-year-old Fazli Delija lay in the ruins of his burnt-out house. Two dead men were found close to a trail of trees that had been destroyed by a tank.

Altogether reporters found 19 bodies. All were in civilian dress. Villagers said they were all from the Delija clan. One six-month-old baby survived, found next to the body of its mother.

Sadri Delija said he was with the women and children hiding in the woods last Friday when police attacked their village.

On Saturday morning he saw police, in various kinds of uniform, approaching their shelter. As he fled he heard screams and gunfire.

Serbian officials had no immediate comment. Diplomats noted that seven policemen had been killed in the same area on Friday and that it was possible the massacre had been carried out in retaliation.

Envoys touring Kosovo said the killings and the worsening humanitarian crisis would add to pressure on Nato to intervene, although they admit it is not clear how planned air strikes would end the violence. Kosovo Albanians yesterday rejected Serbia's new provisional government for the province and official Serb claims that its offensive against KLA "terrorists" was over.

A heavy artillery bombardment continued on Monday evening in southern Kosovo. Yesterday diplomats were stopped by police from approaching the area but could see villages burning in the distance.

Zivadin Jovanovic, Yugoslav foreign minister, speaking at the UN in New York, insisted that the fighting had stopped and that "anti-terrorist actions have been completed – this is a clear very responsible statement of policy from the highest levels."

Albanian ruling party picks PM

Albania's ruling Socialists yesterday nominated Pandeli Majko, the party's secretary-general, to succeed Fatos Nano as prime minister heading a five-party coalition, the Socialist party said, agencies report from Tirana.

Mr Majko, 30, who would be the country's youngest ever leader if appointed by President Rexhep Meidani, was active in 1990 street protests which helped to topple the country's isolationist Stalinist regime.

Mr Majko won the nomination despite competition from two other candidates – Kastriot Islami, the deputy prime minister, and Ilir Meta, a foreign ministry state secretary in charge of European integration.

Although Mr Majko lacks ministerial experience he became prominent as a mediator in feuds between Mr Nano's government and the opposition Democratic party led by Sali Berisha, the former president.

In a letter to Mr Meidani, Mr Nano said on Monday he had stepped down because squabbling had made it impossible to form a new cabinet of his five-party coalition government.

He told the president he had been unable to put together a new cabinet according to his own wishes.

He acknowledged his responsibility "for everything this government has not done" and said that "the chances of coming out of the crisis are little".

Mr Nano also admitted that communication with international leaders had become strained since political tensions increased between him and Mr Berisha. These reached their peak with the assassination by unidentified gunmen of Azem Hajdari, a close associate of Mr Berisha last month.

After the murder, supporters of Mr Berisha stormed public buildings in Tirana and set fire to Mr Nano's office and residence.

EUROPEAN COMMISSION BRUSSELS SUSPECTS FOOT-DRAGGING IN NEGOTIATIONS WITH APPLICANT COUNTRIES

EU states 'try to slow enlargement'

By Quentin Peel in Brussels

Suspicions are growing in Brussels that many of the 15 member states of the European Union are seeking to slow down the pace of enlargement negotiations with the six applicants seeking to join their club.

Formal negotiations are supposed to be launched on November 10 with the five would-be members from central and eastern Europe – the Czech Republic, Estonia, Hungary, Poland and Slovenia – and Cyprus.

But the chances of those talks focusing rapidly on the range of detail needed to join the EU are seen to be fading, after France asked the European Commission to draft a full "political" assessment of the enlargement negotiations.

The result of that request is a Commission report, to be submitted to EU foreign ministers next week. The report suggests that the 15 can proceed to draft their own common positions on the first seven areas of negotiation – including telecommunications, industrial policy, broadcasting, education and training.

France's request for the report was seen at the Commission as a bid to draw a line between the present "screening" phase, and the next period of full negotiations – a means of delaying the latter. "The Commission has been working too efficiently for the tastes of some member states," a Commission official said. "The French want to use this document to say it would not be very smart to go ahead with the next phase."

Apart from France, countries such as Spain, Portugal and Greece – large net recipients of EU funds – are obvious doubters about the speed of enlargement. In addition, Germany and Austria are concerned at any swift moves to allow free movement of labour.

France has also demanded full details from the Commission of all the applicant countries' position papers, spelling out the problems they may have in meeting particular aspects of EU legislation.

"They say it is for transparency, but the only reason they could want to see these documents is to be able to get all the dirt to delay the process," a Commission official involved in the talks said. "The Commission has asked for patience. But the mood among member states is changing. The rhetoric in favour of enlargement is damping down."

According to one leading negotiator for the applicant countries, the most important step will be to start proper negotiations on November 10, rather than to complete any specific dossiers by the end of the year.

"We want a real start to real negotiations," said Pavel Telicka, deputy foreign minister of the Czech Republic. "We don't just want a formal session."

Fyodorov warns of money-printing plan to fund deficit

By John Thornhill in Moscow

Boris Fyodorov, the outgoing deputy prime minister, yesterday warned that the Russian government intended to print money to cover its fourth-quarter budget deficit – a move that would be certain to fuel inflation and jeopardise funding from the International Monetary Fund.

Mr Fyodorov, who was sacked this week as a cabinet minister and head of the tax service, said the finance ministry was already "planning a budget for the fourth quarter where there will be a deficit which can be covered by an emission".

There was no one in the government against using an emission in this way, he said in an interview with the Financial Times.

The finance ministry, which has so far collected only half its planned tax revenue for September, will present its revised budget proposals to the cabinet tomorrow.

Yuri Maslyukov, the former Communist parliamentarian who is now first deputy prime minister in charge of the economy, will also outline the government's long-awaited economic programme.

Mr Fyodorov said the government would have to issue at least Rbs50bn to Rbs60bn ($3.1bn-$3.7bn) – equivalent to about one-third of the monetary base – just to cover its immediate needs and pay off wage and pension arrears. But he expected the government to try to limit the scale of emission.

"I think they will be scared to go on a spending spree, as some people say. These disaster scenarios of hyper-inflation by the end of the year – I do not believe in them," he said.

However, the IMF, which has lent Russia almost $19bn over the past four years, has already told the government it does not believe in the concept of a "controlled emission" and has warned of the social pain caused by high inflation.

Mr Fyodorov said the government's economic programme had still not been worked out in full but two trends were clear. "First, the idea that the central bank should directly finance the budget is not abhorrent to anyone in the government. Second, they like the idea of controls," he said.

Mikhail Zadornov, finance minister, said foreign investors had yesterday welcomed an outline plan to restructure the frozen $40bn government debt market. But few details of the scheme emerged.

UBS AND CREDIT SUISSE SWISS CONCERN OVER ADEQUACY OF TRADITIONAL ARMS-LENGTH SUPERVISION

Biggest banks to get own watchdog

By William Hall in Zurich

Switzerland's banking commission has set up a division to supervise the global activities of UBS and Credit Suisse, the country's two biggest banks, following concern that they have grown too big to be regulated like the rest of Switzerland's 400-odd banks.

Andreas Bühlmann, 39, an economist who has worked at the Swiss Banking Commission for three years, was yesterday appointed head of the new division.

Until now Switzerland's banking watchdog has relied primarily on reports of the banks' own external auditors to monitor the health of Switzerland's banking system.

However, the merger of UBS and Swiss Bank Corporation, the rapid growth of Credit Suisse Group, and recent trading losses, have raised concerns about the adequacy of this traditional arms-length supervision.

Daniel Zuberbühler, director of the Swiss banking commission, said the two banks, which now rank among the world's top 10, had become "so systemically relevant and so complex" that they needed "particular attention".

He said it was no longer enough to rely on external audit reports.

The banking commission needed to "permanently update" itself on the affairs of the two banks.

This would involve the establishment of review teams, on-site supervisory visits in Switzerland and abroad, and much closer co-operation with foreign regulators.

Switzerland's banking commission has traditionally been thinly staffed and under-resourced, leading to concern that it was not up to the job of supervising two of the world's top 10 banks.

Mr Zuberbühler stressed the new unit was not a direct response to the recent problems at UBS, Europe's biggest bank, which lost SFr625m ($454m) on equity derivatives last year, and last week announced a SFr950m loss on its involvement in Long Term Capital Management, one of the world's biggest hedge funds. The idea had first been mentioned in April.

However, the decision to set up a separate unit to monitor UBS and Credit Suisse also reflects growing concern among some Swiss politicians that Switzerland's two flagship banks have grown to such a size that they could cause serious financial problems for the Swiss government if they ever had to be bailed out.

THE AMERICAS

Brazil to curb short-term capital inflows

By Geoff Dyer in São Paulo

Brazil plans to limit the amount of short-term capital coming into the country to reduce pressure on reserves during periods of market turmoil, says a director of the central bank.

Francisco Lopes, director for monetary policy, said the period of volatility in Brazilian markets had been exaggerated by the large amounts of short-term money which had been invested in the country earlier in the year and which had sought a rapid exit over the last six weeks.

"One important lesson of the crisis is that you take a lot of risks with large short-term capital inflows," Mr Lopes said.

Brazil's reserves fell from $74bn in July to around $48bn after the Russian devaluation prompted a new crisis of confidence in emerging markets and led to fears of a forced devaluation in Brazil, Latin America's largest economy.

Mr Lopes did not recommend the adoption of heavy capital controls to stem the outflow, an option pushed by some members of the Brazilian government, but so far fiercely resisted by the finance ministry and central bank. His comments amount to a reversal of the previous policy of relaxing the rules on short-term capital inflows during periods of market turmoil.

Last November, at the peak of the Asia crisis, Brazil opened loopholes to encourage foreign investors to put money into short-term debt instruments, leading to a sharp inflow of funds and a rapid rise in reserves. Mr Lopes did not give details of how capital inflows would be restricted in future but implied that the government was now opposed to using similar loopholes.

"We thought the increase in reserves would be good for expectations after Asia," said Mr Lopes. But the inflow of "hot money" had left reserves artificially high and vulnerable to investor mood swings. "With less short-term capital, we will be better prepared to survive the next round of volatility," he said.

The central bank said outflows of dollars, which averaged around $1.5bn in the first two weeks of the month, had slowed sharply since interest rates were increased sharply on September 16. But the outflow increased on Monday to $739m in a sign of continued investor nervousness.

Economists believe reserves will come under heavy pressure again if the government does not present a convincing policy for reducing the budget deficit after the general elections on Sunday. Mr Lopes said the deficit at the end of the year would be 7.6 per cent of gross domestic product.

Democrats split over TV attack on Starr

By Richard Wolffe in Washington

President Bill Clinton's supporters appeared sharply split yesterday over plans to broadcast a series of television advertisements attacking Republicans over the Starr report.

A group of liberal Democrats called People for the American Way is planning a $5m campaign to criticise the Republican-led Congress for concentrating on the Monica Lewinsky scandal instead of "what needs to be done in this country".

The advertisements are designed to lift the turnout of voters in the mid-term congressional elections next month, and are expected to highlight mainstream Democratic issues such as social security and education.

The White House and Democratic leaders raised concerns about the advertisements yesterday, fearing the campaign would detract attention and funds away from grassroots candidates.

Mike McCurry, the senior White House spokesman, said the president was determined to help candidates raise money and their public profile. "I am not confident that any kind of national advertising campaign is going to be helpful," he said.

The tone of the campaign echoes President Clinton's attacks on Congress for failing to reach agreements on legislation over healthcare, education and the federal budget. Mr Clinton last week condemned the Republican majority for "failing to meet its most basic governing responsibility" by putting "partisanship over progress, politics over people".

Republicans welcomed the prospect that the national advertising campaign would channel Democratic funds away from individual races across the US. The party is already estimated to be spending double the Democrats' funds in the congressional elections.

But they fiercely criticised the White House for attacking Congress. Trent Lott, the Republican leader in the Senate, yesterday said the attacks would undermine any remaining chance of negotiating a compromise on legislation before Congress adjourns next month.

The White House yesterday succeeded in securing the withdrawal of a series of fashion advertisements which capitalised on the Lewinsky affair. Tommy Hilfiger, US fashion designer, agreed to a request from the president's lawyers to drop a series of pictures featuring a mock White House. One included a young brunette on a desk in a fake Oval Office.

Kenneth Starr: Democrats are uncertain whether to attack his report through TV adverts AP

US armed forces show fresh signs of 'serious wear'

By Stephen Fidler in Washington

US armed forces were showing "increased signs of serious wear" and there was evidence that their long-term health was in jeopardy, the chairman of the joint chiefs of staff told the Senate armed services committee yesterday.

General Henry Shelton said a combination of factors, including strict budget limits and a greater operational workload, had together put strains on military readiness. "Our forces are showing increasing signs of serious wear," he declared.

"Anecdotally initially, and now measurable evidence indicates that our readiness is fraying, and the long-term health of the total force is in jeopardy," added Gen Shelton, who appeared with the chiefs of staff of the main services.

The US had successfully maintained the readiness of its forward troops and first-to-fight forces, but this "has not been without cost to the rest of the force".

US forces had been called on unexpectedly – for example in Albania, Algeria and Africa – which had also caused higher than expected wear on equipment. This had led to shortages of spares and maintenance backlogs.

There had also been personnel and base reductions, and some privatisations which had not gone ahead. Congress had also altered the defence budget and complicated the military's task, while a strong economy had made recruitment harder, and was creating skill shortages.

"Without relief, we will see a continuation of our downward trend in current readiness" next year and an extension of the problems that had become apparent in the second half of this fiscal year," Gen Shelton said. He urged more funds to be voted by Congress for Bosnia and the military response to terrorist attacks in Africa, though he said the US was still capable of fighting two "major theatre wars".

NEWS DIGEST

MICROSOFT ANTITRUST TRIAL

Software rival in bid to block documents demand

One of Microsoft's biggest rivals in the software industry went to court yesterday seeking to block a broad demand for internal documents that Microsoft is seeking to use as evidence in its forthcoming antitrust trial.

Oracle, the second largest company in the software industry, said Microsoft's civil investigative demand, the equivalent of a subpoena, was "far too vast" and asked the judge to quash it. Judge Thomas Penfield Jackson was expected to issue a ruling before the end of the day.

Oracle said Microsoft "apparently believes that its status as an accused monopolist entitles it to use judicial process to delve into its competitors most sensitive commercial information". But Microsoft argued the documents were "plainly relevant" to its case.
Louise Kehoe, San Francisco

MCCORMICK PLACE, CHICAGO

Action to save $5bn business

Labour unions and business groups yesterday finally unveiled a package of cost-cutting measures to help Chicago's McCormick Place, the nation's biggest trade show centre, combat competition from rival facilities and hang on to its near $5bn-a-year business.

McCormick Place, a complex covering 2.2m sq ft major pulls in about $4.7bn annually and helps to sustain thousands of jobs.

Under yesterday's deal, the two unions involved in construction – the Decorators and the Carpenters – will agree to create a "unified labour pool" to cut some of the costly installation delays. The unions have also agreed to cut overtime rates. Exhibitors will also be able to do more of their own assembly and decorating work.

Meanwhile, Chicago's hotels – criticised for charging uncompetitive rates – have agreed to price more attractively. **Nikki Tait, Chicago**

INDIA AND PAKISTAN SANCTIONS

US vote boosts rupee

The Indian rupee ended firmer against the dollar yesterday in response to the first steps taken by the US Congress towards easing sanctions against India and Pakistan.

A House-Senate panel voted on Monday to give President Bill Clinton discretion to issue a one-year waiver of sanctions. The panel decision will have to be ratified by a full floor vote in Congress, but analysts said it was a positive sign. India's and Pakistan's nuclear tests in May prompted the US economic sanctions.

The Indian rupee ended firmer at 42.45/46 against the dollar yesterday, up from Monday's close of 42.50/52. **Reuters, Bombay and Washington.**

On the web today

- Brazilian drought touches a raw political nerve
- Oil fails to calm Newfoundland's troubled waters
- Bolivia wins hefty debt service relief

http://www.ft.com/americas

GLOBAL ECONOMIC CRISIS PRIVATE SECTOR CAPITAL FLOWS FORECAST TO FALL SHARPLY THIS YEAR

Investors retreat from emerging markets

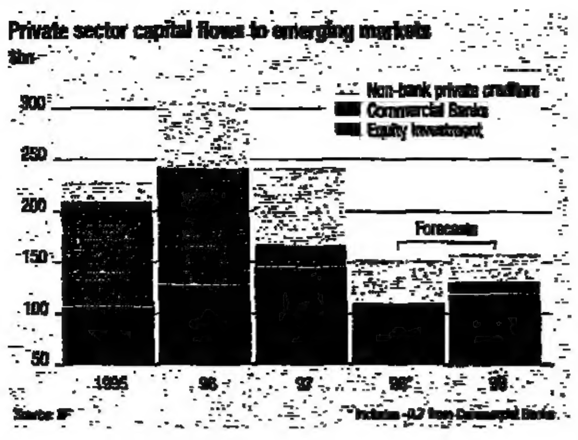
By Robert Chote, Economics Editor, in Washington

Private sector capital flows to emerging market economies are dropping this year to barely half the record level of 1996, as bond issues dry up and commercial banks demand more in repayments than they make in fresh loans.

The Institute for International Finance, a Washington-based umbrella group for financial institutions, forecast yesterday that private sector capital flows to 29 leading emerging market economies would fall to less than $160bn this year, down from $242bn last year and $306bn in 1996.

"Widespread investor retreat from emerging markets, coupled with the difficult adjustment process in many Asian economies, creates the potential for a global recession that would jeopardise the welfare of populations in high-income and low-income countries alike," warned Charles Dallara, the institute's managing director.

Capital flows are expected to remain at around $158bn next year, but $16.4bn of this will be accounted for by mounting arrears on interest payments to banks and bondholders. Interest arrears will account for 43 per cent of new lending by private creditors next year, up from 18 per cent this year and zero in 1997. This implies that the underlying trend in capital flows will continue to be down.



Bond issues have almost dried up since the Russian debt moratorium in mid-August, as spreads have become too expensive for borrowers and investors avoid risk. Other than a $350m Lebanese issue sold almost entirely to Middle Eastern investors, there were no publicised emerging market issues from mid-August to late September.

Mr Dallara said that a forceful strategy was required to restore investor confidence, involving governments, multilateral institutions and private sector participants. At the macroeconomic level this required easier monetary policy from industrial countries, further efforts to revitalise Japan's economy and greater fiscal discipline from countries seeking to participate in global capital markets.

The institute insisted that short-term capital flows had a useful role to play underpinning trade and inter-bank lending but conceded there was a case for Chilean-style taxes on short-term inflows. It warned, however, that "broad application of controls to inflows and outflows can have serious distorting effects on investment, deprive countries of much needed capital and impede medium-term growth".

Private sector financial institutions also needed to strengthen their risk management, Mr Dallara argued, taking more account of volatility, illiquidity and counterparty creditworthiness. He added that highly leveraged "hedge fund" investors should be supervised more rigorously and called for the publication of more data on bank exposure to particular countries and the health of national financial systems.

Governments and multilateral institutions should also communicate regularly with the private sector to prevent crises getting out of hand, the institute suggested. But critics suspect this is special pleading on behalf of big private sector institutions, which want an early warning of trouble so they can get their money out.

With lending by private creditors and portfolio equity flows into emerging markets projected to more than halve this year, the one bright spot is the resilience of direct investment – establishing a physical operation or buying a company in an emerging market. Direct investment flows are expected to total $105.9bn this year, compared with $119.7bn last year.

COMMONWEALTH FINANCE MEETING

Emergency moratorium on debt proposed

By Edward Alden in Toronto

Canada yesterday proposed the creation of an emergency mechanism that would allow debtor countries to freeze temporarily their short-term financial obligations in the event of financial crises that pose the threat of default.

Paul Martin, finance minister, said in a speech to Commonwealth business leaders in Ottawa that private sector investors such as banks must in the future accept formal obligations for the resolution of international financial crises.

That could mean negotiating an "emergency standstill clause" into all cross-border financial contracts involving sovereign borrowing. The clause, which would allow for the declaration of a moratorium of perhaps 90 days on all debt repayment and debt servicing, would give countries the breathing room to renegotiate payments in the face of a financial crisis.

The clause could only be exercised in extreme circumstances where the withdrawal of short-term finance was severely hampering the restoration of financial stability, and would require the agreement of the executive board of the International Monetary Fund, Mr Martin said.

The proposals come at the opening of a three-day meeting of Commonwealth finance officials in Ottawa that is focused on finding ways to protect developing countries against the destabilising effects of volatile capital flows.

In addition, Mr Martin plans to press the initiative with his counterparts at a meeting of IMF finance officials in Washington at the weekend.

The proposed standstill mechanism is intended to address the underlying weaknesses of the IMF, which was initially designed to deal with current account problems and lacks the resources to deal with capital crises, Mr Martin said.

"Akin to runs on the bank, but on a staggering scale, these outflows are simply too large for the IMF to finance because global capital flows have grown so tremendously," he said.

Under the proposed mechanism, private sector lenders would face obligations equal to governments in providing liquidity and restructuring debt. The procedures would allow these creditors to be represented in all such negotiations.

South Korea was successful last year in negotiating

Banks must accept obligations for solving crises

an *ad hoc* standstill with its creditor banks, said Mr Martin, in contrast to Russia's unilateral defaulting on its debt.

But an emergency clause would help lay out the ground rules for such negotiations before a crisis occurred, not after.

Canada is also proposing that the IMF draw up a "roadmap" for capital market liberalisation that takes seriously the need for capital controls under certain circumstances.

This would be a practical guide to how countries could pursue capital liberalisation "without suffering a deadly financial accident on the way", said Mr Martin. That roadmap could include controls on short-term capital inflows for emerging markets with relatively fragile financial systems, he said.

Strains on the IMF and World Bank, see Comment & Analysis

CURRENCY TRADING BIS THREE-YEARLY REPORT

Euro dawn promises challenge to mighty $

By Richard Adams and Andrew Balls in London

The coming of the euro – the European single currency – means that the latest survey of the international foreign exchange market may soon look like a museum piece.

The survey – held every three years by the Bank for International Settlements and central banks around the world – revealed that the dollar is still far and away the dominant world currency.

In London, the world's leading centre for foreign exchange, buying or selling of the dollar accounts for 85 per cent of total turnover. That proportion is little changed from previous surveys.

But the latest survey, published yesterday, shows a rise in trading in the dollar against the currencies that will make up the euro when it is launched in January.

In 1995, the combined dollar-euro trades accounted for around 38 per cent of total turnover, with 22 per cent of the total market coming from dollar/D-Mark trading.

Three years later and the total has risen above 40 per cent, thanks to greater activity in lira and other member currencies.

Hal Herron, the global head of foreign exchange trading at Deutsche Bank in London, said: "When the euro comes into being it will be as a major bloc. We will see it traded against a whole range of currencies. Things will look completely different, that's for sure."

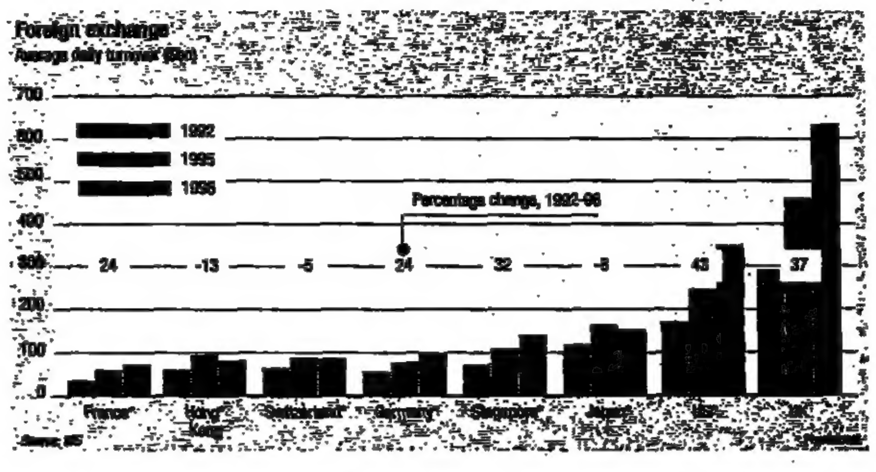
But it may take time for the euro to challenge the dollar as the international currency of choice, because of the deep reserves held in dollars worldwide.

A change in the dollar's status could hurt the position of the New York market, which remains the largest foreign exchange centre after London.

Turnover in New York has grown by 43 per cent since the last survey, at an average of $351bn per day in April compared to $244bn in 1995, for an annualised growth rate of 13 per cent.

The New York market for foreign exchange swaps is now larger than the spot market, accounting for 47 per cent of foreign exchange transactions, compared to 42 per cent spot volume. The daily turnover of foreign exchange and interest rate derivatives has increased by 75 per cent in three years, rising from $52bn in 1995 to $91bn in April 1998.

However, New York is still only just over half the size of the London market. London is home to a daily turnover of $637bn, as much as US, Japan and Singapore, the next biggest markets, combined.



The London market also showed a rapid rise in over-the-counter (OTC) derivatives currency trading, which rose by 131 per cent in the three years since the last survey.

"The problems in Asia have shown that if you do have to hedge a currency exposure, there are more effective ways of doing it than just using the spot or forward market," Mr Heron said.

As the Japanese market shrinks, Singapore is challenging Tokyo's position as Asia's biggest foreign exchange market.

The Bank of Japan's survey, part of the survey of 43 countries and regions co-ordinated by the BIS, showed that average daily turnover in Tokyo's foreign exchange market has fallen 7.9 per cent since 1995, its first fall since the survey began in 1986.

Toyko's daily turnover in spot, forward and swap transactions dropped to $148.7bn in April, compared to $161.4bn in April 1995.

The BoJ said that a sharp decline in forward and swap transactions lay behind the fall. But the crisis in the Japanese banking system has also played a part. A reduction of credit lines to Japanese financial institutions on currency transactions due to declining confidence in Japanese banks has pushed down volumes.

Paul Chertkow, head of global currency research at the Bank of Tokyo-Mitsubishi, said some Japanese banks had suffered from the "Japanese premium" and recent credit downgrades. As a result, counterparties had been unwilling to do business with some Japanese institutions.

Israeli PM may try to buy off settlers

By Judy Dempsey in Jerusalem and Stephen Fidler in Washington

Benjamin Netanyahu, Israeli prime minister, who returned from Washington yesterday, may offer Ariel Sharon the post of foreign minister in an attempt to buy off Jewish settlers who are threatening to topple the government.

The deal, if confirmed, might convince hardline settlers to accept a limited second Israeli troop pullback from the West Bank that would leave Palestinian towns and villages cut off from each other by the settlement by-pass roads.

It would also catapult one of Israel's most hawkish politicians, currently infrastructure minister, into the limelight. The foreign ministry has been under Mr Netanyahu since January when David Levy resigned in a protest over tax cuts and other issues. All appointments have since been made by Mr Netanyahu, communication between senior ministry officials and the prime minister's office has been kept to a minimum and morale has sunk as the ministry has been robbed of initiative.

The settlers, representing 1 per cent of the population, believe the Netanyahu government is vulnerable – it has a majority of only one in the Knesset, or parliament. "If the government decides on this withdrawal, which means giving Arafat a Palestinian state on a silver platter, we won't be able to be partners to this government. This means there will be early elections," said Hanan Porat, Knesset deputy for the rightwing National Religious party.

But it is far from clear what Mr Netanyahu agreed during talks with President Bill Clinton. Under pressure from Israel, diplomats said Mr Clinton declined to confirm publicly that Mr Netanyahu had accepted a watered-down version of an earlier US proposal. That envisaged handing over 13 per cent of West Bank land to Palestinian control.

Iraq arms inspector reveals Israeli link

By Roula Khalaf in London and Laura Silber in New York

Israel played an important role in assisting United Nations arms inspectors uncover how Iraq concealed its weapons of mass destruction, Scott Ritter, the inspector who resigned earlier this summer, revealed yesterday.

Officials with the UN commission charged with dismantling Iraq's arsenal of banned weapons (Unscom) yesterday played down the significance of Mr Ritter's statement and pointed out that many governments had helped disarmament efforts.

Unscom declined to describe Israel's role or provide details about any country in particular. "People [from Unscom] have travelled to all sorts of countries, all over the world to see what information they possess about Iraq's weapons programmes," said Ewen Buchanan of Unscom.

"In the absence of the Iraqis telling the truth, companies, governments and member states are encouraged to assist us with our work by providing us with technical and physical support or whatever information they have," he said, adding, "some countries won't help us."

Ritter: Israel helped UN break Iraqi arms code

Unscom went to Israel for help as early as 1994, after being "dismayed with the lack of intensity, the lack of enthusiasm, which emanated from Washington on this issue," Mr Ritter said.

"I can honestly say that if it weren't for Israel, the special commission (Unscom) would not have been able to carry out the anti-concealment effort," he told Israel's Ha'aretz newspaper.

Israel's main contribution over four years, according to Mr Ritter, was providing the methodology which finally allowed inspectors to break the code Iraq was using to issue instructions on the movement of weapons it wanted to hide from inspectors.

Mr Ritter's decision to reveal this information would appear to be part of a score settling campaign against the US. The former US Marine captain, who was responsible for Unscom's anti-concealment operation, quit his job in protest against the US government's moves to halt inspections.

He claimed yesterday that Israeli assistance had put inspectors on the verge of major discoveries, which the US had prevented them from pursuing.

Mr Ritter said the US had blocked inspections because this would have entailed inspecting the people closest to President Saddam Hussein, including his security services and family members, and would have led to direct confrontation with the Iraqi regime. The US, conscious of the lack of support for military action against Baghdad, has been keen to avoid confrontation.

Iraq claims that the commission has been biased and should be restructured before Baghdad reverses its August decision to halt co-operation with inspectors. Baghdad has long accused Mr Ritter of spying.

Iranian minister points way to better US ties

The US must change its behaviour towards Iran and lift sanctions that hinder economic development if it wants a serious political dialogue with Tehran, according to Kamal Kharrazi, foreign minister, Reuters reports from New York.

"In line with the underlying principles of our foreign policy, the approach of the Islamic Republic of Iran towards the US will be commensurate with changes in US behaviour towards Iran," he told the Asia Society on Monday night.

He said US sanctions and a freeze on Iranian assets were retarding the economic prosperity of Iran and the region, and depriving US companies of lucrative investments in Iran's oil and gas industry.

He also criticised US "one-sided support" of Israel and funding for a radio station to wage an anti-Tehran propaganda campaign.

Mr Kharrazi cited three areas where Iran was "prepared to participate actively and constructively", namely the fight against narcotics, against terrorism and against weapons of mass destruction.

He also seemed to want to correct a widespread impression that Iran's more moderate foreign policy of the past year, with its overtures to the US and the west, was the work solely of President Mohammad Khatami, not also of the country's supreme leader, Ayatollah Ali Khameini.

Mr Kharrazi said this foreign policy "has also received the unreserved blessing of the leader of the Islamic Revolution".

The speech had been anticipated as the authoritative Iranian response to a speech to the Asia Society on June 17 in which Madeleine Albright, US secretary of state, unveiled a US "road-map" for improving US-Iranian ties.

The Clinton administration sent several senior officials to hear Mr Kharrazi's speech, including Thomas Pickering, undersecretary of state for political affairs.

INDONESIAN PROJECTS BONDS RUN RISK OF DEFAULT AFTER STATE COMPANIES FAIL TO PAY FOR ELECTRICITY

Moody's downgrades big power schemes

By Andrew Taylor in London and Sander Thoenes in Jakarta

Moody's Investors Service yesterday downgraded three large Indonesian power projects, backed by US energy groups, warning that bonds issued to support the schemes ran the risk of default.

The move comes as the Indonesian government is under increasing international pressure to honour power purchase agreements.

Alan Larson, US assistant secretary of state for economic and business affairs, said in Jakarta yesterday: "When there are contractual obligations, it's important, where possible, to honour them. When it's impossible to do that, [renegotiations] must be done in an open, fair and transparent manner."

Problems have arisen because two Indonesian state companies, Pertamina and Perusahaan Listrik Negara, have failed to make full payments for electricity supplies.

The three projects downgraded by Moody's include the country's largest power project, Paiton One, a 1,230MW scheme sponsored by Edison Mission Energy. Moody's has downgraded finances for the scheme to Caa2.

Two other projects have been downgraded to Ca. These are CE Indonesia Funding's geothermal projects at Dieng and Patuha, sponsored by CalEnergy and DSPL Finance Company's geothermal project at Gunung Salak backed UnoCal of the US.

Project bonds rated Ca "are speculative in a high degree... such issues are often in default or have other marked shortcomings," according to Moody's.

The collapse of the rupiah has left Indonesia with costly power purchase agreements which are nominated in dollars while it sells in rupiah. The currency crisis also has weakened demand for electricity from industry and business.

Moody's said that failure by Pertamina, the state-owned oil and gas group, and PLN, the power utility, to pay CE Indonesia and DSPL represented a failure by government "to abide by its support obligations".

It warned that it was "inevitable that similar contractual breaches will occur in respect of other independent power projects as and when they come on stream".

Some of the most costly contracts, such as for Paiton, have been signed with foreign investors who teamed up with relatives and friends of former president Suharto even though much of the country already faced oversupply.

PLN, the power utility, has so far told independent power producers only that it lacks the cash to pay but producers complain they have heard little else. Some have proposed partial payments, with compensation in the form of options to buy PLN power plants, but have waited in vain for any response.

Power analysts presume that Paiton will have to accept lower rates but PLN will not need its power even then, as it faces a drop in consumption due to the economic crisis.

US steel industry seeks to check import surge

By Nancy Dunne in Washington

The US steel industry, backed by the steelworkers' union, is expected to file the first of a series of unfair trade complaints as early as today.

The company-union coalition is also seeking separate action from the US government to check surging steel imports, which reached a record 4m tonnes in July.

Representatives of 12 steel companies and the unions have met administration officials, including Charlene Barshefsky, US trade representative, and Robert Rubin, treasury secretary.

Among other suggestions, they urged strong pressure on Japan to stem the flood of imports, which so far this year are 130 per cent higher than in the same period a year ago.

The US steel industry has been one of the first to share the pain of the economic turmoil in Asia and Russia. Officials have been anxiously watching imports for the past year, as Asian demand weakened and exports were diverted to the US.

So far this year, imports from Russia have risen almost 19 per cent; from Japan, 130 per cent; Korea, 93 per cent; Indonesia, 374 per cent; Australia, 120 per cent; South Africa, 94 per cent; India 57 per cent, and Ukraine, 52 per cent.

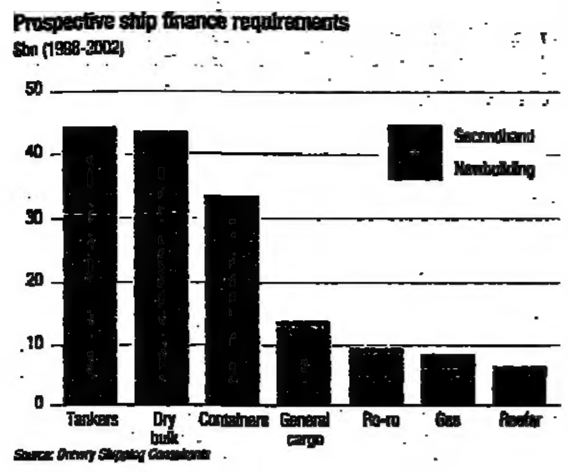
"We are sympathetic to what is happening in these countries," said Hank Barnette, chairman of Bethlehem Steel. "But we have gone through a significant transformation. We have reduced jobs from 500,000 to 200,000 and really restructured. We are truly a low-cost and high-quality producer."

George Becker, head of the steelworkers' union, expressed concern that anti-dumping and subsidy laws, changed to make them consistent with the World Trade Organisation rules, would not provide sufficient protection soon enough to prevent large-scale job losses.

"I am very fearful with devaluation and [overseas] industry depressing the wages that this may not be considered dumping." Under the US definition, "dumping" is selling at below "fair market" prices.

"We feel if we don't raise hell, nothing will be done," said Mr Becker. "We're ready to hit the docks," suggesting that steel workers and other union members may protest against the unloading of foreign steel.

Mr Barnette said overseas producers must "bring about their own rehabilitation". Solutions should be multilateral. However, the US tried and failed to lead negotiations for a multilateral steel arrangement in the early 1980s.



SHIPPING FINANCE

A secretive industry opens its books to new lenders

By Charles Batchelor, Transport Correspondent

The world shipping industry may need to raise up to $160bn over the next five years to finance the purchase of new and second-hand vessels, according to a survey by Drewry Shipping Consultants.

The need for external sources of finance has forced a traditionally secretive industry to open its books to outsiders such as banks, bond issuing houses and credit rating agencies.

Even the normally reticent Greek shipping community, the world's largest with 16 per cent of the global fleet in terms of tonnage, has overcome its shyness of publicity, the survey said.

One notable feature of recent fund-raisings by shipowners has been the popularity of "junk bond" issues – high-yield debt issues which have not obtained an investment grade rating – on the US capital markets.

Drewry estimated that shipowners raised $29bn from all sources to finance new buildings in 1997 – assuming that 80 per cent of the purchase price was met externally – and that the total requirement for the period 1998-2002 would be a further $125bn.

However, this excludes cruise ships, which are undergoing a boom, and other specialised vessels.

The expected need to finance second-hand ships is around $30bn-$35bn, assuming that 60 per cent of the cost is financed externally.

The increasingly global nature of financial markets has allowed more finance providers to move into the shipping market despite its extremely cyclical nature. "Ship finance is more cyclical than the shipping industry itself," the survey said.

Poor returns in other areas of investment have also persuaded newcomers to enter the shipping market alongside the core players, currently estimated to number between 40 and 65 institutions.

The shipping crisis of the 1980s, when huge losses were sustained by banks, has not deterred bankers from returning to the sector.

Junk bonds have also become more readily available in the past two years. They are typically for 10 years and do not require principal to be repaid until the end of that period.

But on the debit side, the rate of interest will be high and in the event of the issuer being unable to keep up interest payments, the bondholders are unlikely to show tolerance. Many institutions have a policy of selling a defaulted bond which would almost certainly lead to attempts to wind up the issuing company.

The use of bonds has helped make shipowners more open to the outside world, however. "Until recently the idea that a shipowner would have the pluck to apply for a credit rating and issue bonds, with all the outside scrutiny that entails, seemed nothing short of preposterous," the report said.

"Traditionally Greek shipowners have been reluctant to approach the US capital markets as a result of the high level of disclosure required. In addition, owners have been afraid that under US law their company will be more prone to liabilities in the event of a major incident."

But the opportunities for fund-raising have proved strong enough to overcome this traditional caution.

Tapping the equity markets remains difficult for shipowners, however. The sector has gained a reputation for volatile prices and has underperformed on most stock markets.

Shipping companies are generally too small to attract much interest from analysts so shares suffer a lack of liquidity.

Ship Finance: Choices, Competition and Risk/Reward Equations. Drewry. Fax +44 171 987 9396. £450 ($756)

Talks starting on big shake-up in Lomé pact

By Neil Buckley in Brussels

The European Union and 71 African, Caribbean and Pacific countries today launch negotiations on a sweeping shake-up of the Lomé Convention, their 23-year-old trade-and-aid agreement.

João de Deus Pinheiro, EU development commissioner, will meet Billie Miller, deputy prime minister of Barbados and president-in-office of the ACP countries' council of ministers, to launch the talks, expected to last at least a year.

The EU has proposed significant changes to the agreement, one of its biggest foreign policy commitments, which covers both development aid totalling Ecu2.5bn ($2.9bn) a year from Europe, and preferential market access for ACP countries – many of which are former European colonies.

Some 45 per cent of ACP exports go to the EU, while 56 per cent of all official development assistance to ACP countries comes from the EU and its member states. The biggest and most controversial proposal is to replace the non-reciprocal trade preferences enjoyed by ACP countries with free trade agreements between the EU and regions, sub-regions or individual countries.

Mr Pinheiro insisted last week each agreement would be appropriate to the level of development of the countries involved, and would be "asymmetrical" – giving bigger access for ACP countries to EU markets than the other way around.

The change is partly inevitable, since the current system requires an exemption each year from World Trade Organisation rules.

"Our experience is that getting this derogation is getting more and more difficult," Mr Pinheiro said. "The preferential system as it stands has also not allowed us to increase exports from our ACP friends."

He added that free trade agreements would do more to alleviate poverty by helping developing countries integrate into the world economy, and attract private investment.

But some ACP countries warn their economies are too fragile to withstand even an asymmetrical free trade deal with the EU.

Development groups also fear ACP states lack the negotiating experience to ensure they win deals that would benefit them.

NEIGHBOURLY MOVE PROPOSALS WOULD AFFECT EMERGING ECONOMIES ☐ CHALLENGE TO G7 DEMAND FOR RAPID LIBERALISATION

Japan ponders support for capital curbs

By Gillian Tett in Tokyo

Japan's finance ministry was yesterday discussing proposals to support occasional controls on short-term capital movements in emerging markets.

It is likely Japan will press western countries to back the idea at meetings of the Group of Seven industrialised countries and the International Monetary Fund this weekend and next week.

The stance could drive a wedge between Japan and other G7 countries such as the UK and US, which, together with the IMF, have traditionally encouraged rapid capital liberalisation.

"Any move by Japan to support capital controls will not be very helpful," one western diplomat said yesterday.

Kiichi Miyazawa, the finance minister, yesterday stressed that the proposals remained "vague and not clear" ahead of the G7 meeting. "Many people are sympathetic to the need [for capital controls], but nothing firm is decided yet," a senior bureaucrat said.

However, the finance minister said that he was seeking to find some "middle ground" between totally liberalised capital flows and the type of strict controls that Malaysia has recently introduced. In particular, officials indicated that Japan was likely to use the G7 meetings to call for better monitoring of hedge fund operations and the occasional use of controls on short-term capital inflows in emerging markets.

Takatoshi Ito, an economics professor and adviser to the Ministry of Finance, said: "I think what Miyazawa wants to do is send a message of support to emerging countries – to say that it is OK for emerging markets to impose some controls on inflows."

The ministry has been floating the idea of some form of capital control in private for four years. It has also been secretly opposed to some IMF austerity policies for south-east Asia in the last fiscal year.

However, until recently Japanese diplomats were reluctant to express their opposition to the IMF stance in public, partly because Japan received a humiliating rebuff when it floated proposals to create an Asian Monetary Fund last autumn.

But the recent Asian crisis has left Tokyo under new pressure to produce regional initiatives that will be popular among its neighbours. It has refused to condemn Malaysia's capital controls.

Japanese diplomats suspect that the US position of supporting liberalisation at all cost has been weakened by the current confusion about US foreign policy and recent large losses at some US hedge funds.

Japanese officials yesterday stressed that they were unlikely to call for blanket capital controls on both outflows and inflows, or for capital controls in developed countries. Instead, the proposals will focus on inflows and are likely to be limited to emerging markets.

They also said that any initiative was likely to be coupled with other policies to support south-east Asia, such as an effort to revive the regional bond market.

Korea N-funds may be resumed

The Japanese government indicated yesterday it could reverse its decision to freeze $1bn funding for a light water nuclear reactor in North Korea, **Michiyo Nakamoto reports from Tokyo.**

In a move that highlights a shift in Japan's policy towards the Korean peninsula, Masahiko Komura, foreign minister, said it was time to consider when the suspension of Japan's contribution to the Korean Peninsula Energy Development Organisation (KEDO) reactor programme should be lifted.

"There is a feeling in the US, South Korea and the international community that Japan has continued [its suspension of funding for KEDO] long enough," Mr Komura said. "The time has come for us to seriously consider lifting the suspension."

Japan suspended funding for the light-water nuclear reactor following North Korea's launch last month of what Tokyo assumed was a ballistic missile across Japanese territory.

Stimulus measure may be brought forward

By Michiyo Nakamoto in Tokyo

The Japanese government yesterday indicated it was considering bringing forward a planned second supplementary budget worth Y10,000bn ($73bn) aimed at stimulating the economy.

Hiromu Nonaka, chief cabinet secretary, said a second emergency Diet meeting could be convened in November so the government could try to pass the supplementary budget.

Mr Nonaka admitted the first supplementary budget implemented in fiscal 1998, worth Y16,000bn, was not having the desired effect of boosting the Japanese economy. "It cannot be helped if it is pointed out that the economy is shrinking," Mr Nonaka said.

The government will also consider bringing forward planned tax cuts, worth Y6,000bn which Keizo Obuchi, the prime minister, has pledged to implement.

The government had planned to get the supplementary budget passed during the plenary Diet session to be convened in January. However, Japan is under growing pressure from trading partners to act quickly to boost the economy.

Yesterday, the ruling Liberal Democratic party failed to present its proposal on a scheme that would take the place of a Y13,000bn fund set aside to recapitalise weak but viable banks. Such a scheme is considered crucial to restoring the capital adequacy of healthy banks and preventing systemic risk.

The LDP's proposal, which calls for the government to buy common shares in banks in proportion to the extent of their capital adequacy ratios, was scheduled to be presented to the opposition yesterday but met with resistance from within the party. "The LDP is having trouble forming a unified stance," said an opposition official.

Under the LDP proposal, the government would buy less than 50 per cent of common shares in a bank with a capital ratio of between 8 per cent and 4 per cent and more than 51 per cent for banks whose capital ratio is under 4 per cent but above 2 per cent. Banks with a capital ratio of less than 2 per cent would be put under public administration.

China assures foreigners over currency curbs

By James Kynge in Beijing

Chinese officials are sparing little effort in reassuring foreigners that a spate of new controls on foreign currency transactions do not signal a retreat from the country's much vaunted "open door" policy.

They say yesterday's measures to combat capital flight are the temporary product of "unusual circumstances". But many in the foreign business community worry that unusual circumstances could last an unusually long time.

The pressures causing alarming outflows of foreign currency may be slow to dissipate. Companies are concerned that China may have to devalue because of its worsening trade performance and because of the slowdown in a wider economy plagued by chronic oversupply and deepening deflation. Exports fell 2.4 per cent in August, from the same month a year ago. Last year, they climbed 20.9 per cent for the whole year.

Individuals, who according to official figures hold $80bn in foreign currency, also appear increasingly convinced that China may have to devalue some time next year. The recent reluctance of officials to pledge that the renminbi will not be allowed to depreciate in 1999 has bolstered such convictions.

It seems likely therefore that foreign companies trading or investing in China may have to contend for some time with the side-effects of Beijing's battle with capital flight.

"They do not want to make life more difficult for us but our interests are being sacrificed to a greater cause, and may continue to be for some time," said one foreign banker in Beijing.

Foreign investors find themselves unable to hedge foreign debt exposure because of a State Administration of Foreign Exchange (SAFE) prohibition on Chinese banks lending renminbi for the purpose of pre-paying foreign currency loans.

Wu Xiaoling, director general of SAFE, said yesterday Chinese banks could provide renminbi loans to foreigners for working capital. Lending to new projects in renminbi is permissible only if the foreign investor "pledges foreign currency in order to get the renminbi loans," she said. Demand for renminbi financing is keen because of fears of devaluation.

Another consequence of yesterday's measures could be felt by foreign banks and companies that export to China. Many exporters sell their goods to Chinese import agents, which buy the products with hard currency loans from foreign banks. But these import agents are now the subject of SAFE investigations into whether they used fake documents to shift foreign currency offshore. If they are found to have generated more than $1m in illegal dealings, their trade licences will be revoked, said Ms Wu.

The number may be large because forged documents representing "several billions" of dollars have been uncovered. This may mean that foreign exporters are forced to find different agents.

Wu Xiaoling: Chinese import agents to be investigated Reuters

'Not another dollar,' threatens US power investor

AES Corporation, one of the largest foreign investors in China's power sector, says it will not invest "another dollar" until authorities resolve problems that have hit the company's revenues, **James Kynge reports from Beijing.** The decision is one of the clearest signals of growing discontent among foreign businesses as China's slowing economic growth puts strains on revenue-sharing deals and a spate of recent foreign currency regulations throw corporate plans into disarray.

"Every month, someone tries to break a contract, or get out of some sort of payment," said Bill Ruccius, president and chief executive of AES Orient, north Asia division of AES Corporation, one of the world's largest power companies. Mr Ruccius said AES, which has invested $380m in China in nine power projects with total capacity of 3,000MW, has a long-term commitment to China. But he added "things are going to have to change a lot" before the company invested more.

He said if problems were ironed out, the company could double its investment in China over the next one or two years.

One key issue, Mr Ruccius said, was that the State Development Planning Commission, an influential central government organ, had not yet approved scheduled 1998 tariff increases for six of AES's power projects. Tariff increases are not retroactive.

Another blow has been payment delays by clients, such as an aluminium plant and a city authority, for the power they have received. Some clients no longer need all the power they are contracted to buy.

Howard counters racism claims

By Swen Robinson in Browns Plains, Queensland

John Howard, Australia's prime minister, yesterday replied to fresh accusations of racism against his conservative coalition by campaigning in Queensland for a Vietnamese-born candidate standing for his Liberal party in Saturday's general election.

Hours later, he repeated earlier pleas for supporters of minority parties, including the populist One Nation party, to direct their secondary, or preference, votes to his coalition.

Mr Howard's moves highlight the increasingly tense nature of the campaign's final days, as polls continued to show equal levels of support for the coalition and the opposition Labor party.

The prime minister's endorsement of Cuong Bui, who came to Australia as a refugee 23 years ago, was aimed at damping controversy over remarks by Tim Fischer, deputy prime minister and leader of the National party, the Liberals' coalition partner.

On Monday, Mr Fischer said Aboriginal land councils, which oversee native claims, had become "blood-sucking" bureaucracies which took resources away from small Aboriginal communities.

Opposition groups accused the coalition of bringing racism into the campaign, a criticism that seemed to fire Mr Howard's rhetoric at a gathering of mostly Asian-born Australians in Brisbane.

"We should always be on guard against people who would divide the community on racial lines," he said, in reference to One Nation and its leader, independent MP Pauline Hanson. "This country belongs as much to Cuong Bui as it does to me."

Mr Bui is contesting the seat of Rankin, which borders Ms Hanson's former electorate of Oxley. Mr Howard later said he broadly agreed with Mr Fischer's concerns that money for indigenous people was being wasted at the administrative level, but denied the remarks were intended to woo One Nation supporters.

In speeches and television broadcasts, Mr Howard said: "If people voting for minor parties, be it the Greens, be it the Democrats, be it One Nation – if they don't want a Labor government, then they should take care to direct their preferences to the coalition."

He also spoke about the widening crisis in Victoria, where a gas plant explosion last Friday has crippled industry and caused thousands of job losses by leaving most of the state without power supplies. The coalition is concerned that public anger could grow toward the state's Liberal government and affect the coalition's chances. Mr Howard repeated an offer to try to help laid-off workers, but said the disaster should not become an election issue.

Blast threatens carmakers, See Companies & Finance

NEWS DIGEST

CAPITAL ADEQUACY TEST

Bank Indonesia offers boost to ailing banks

Indonesia's central bank yesterday offered to stimulate recapitalisation of the troubled banking sector by injecting four rupiah for every rupiah offered by shareholders and investors.

Syahril Sabirin, governor of Bank Indonesia, said banks with capital adequacy ratios below 4 per cent had a month to submit a business plan for raising the ratio to 8 per cent and reducing exposure to affiliated parties. Banks which fail to attract new funds risk closure, he said.

This matching fund approach had been pushed by the International Monetary Fund as a way to keep liquid banks afloat, rather than just bail out collapsed banks as the government has attempted so far, mostly in vain.

The government would take a non-voting share in any bank it helps to recapitalise and offer those shares for sale after three years. Banks owe the government Rp150,000bn ($13.8bn), plus interest. Finance minister Bambang Subianto said yesterday 14 collapsed banks would have to repay the government in cash, abandoning efforts to negotiate a handover of assets that had been widely criticised as too soft. **Sander Thoenes, Jakarta**

THAI POLITICS

Coalition faces shake-up

The Thai government was yesterday on the verge of a coalition and cabinet reshuffle that is likely to increase substantially the government's majority in parliament but could result in the break-up of the economic policy-making team led by the ruling Democrat party.

Coalition members feel they need Chart Pattana, the third largest party with 52 seats in the 393-seat parliament, to stabilise a government rocked by both corruption allegations against one coalition partner and the likely loss of 12 MPs expected to be expelled from parliament for defying their party leader and supporting the government.

But Chart Pattana is demanding minister or deputy minister portfolios in economic ministries including finance, commerce, industry, transport and communications, labour and foreign affairs. **Ted Bardacke, Bangkok**

HONG KONG

Foreign currency deposits grow

Foreign currency deposits in Hong Kong grew much faster than deposits in the Hong Kong dollar last month, reflecting anxieties about the territory's exchange rate peg to the US dollar and a severe speculative assault on the Hong Kong currency.

Figures released yesterday by the Hong Kong Monetary Authority, the territory's *de facto* central bank, showed US dollar deposits increased by 5.5 per cent from the end of July to the end of August. By contrast, total Hong Kong dollar deposits rose by just 0.6 per cent, with demand and savings deposits both falling.

While the authorities defeated the August assault on the 15-year currency peg, yesterday's statistics suggest the Hong Kong public has sought to hedge its currency exposure. **John Ridding, Hong Kong**

SOUTH KOREA

Bank protest strike cancelled

A strike at nine South Korean banks to protest at job cuts was cancelled yesterday as labour-management talks continued. Workers appeared ready to accept an offer of a 32 per cent reduction in jobs, scaled back from 40 per cent, as a result of mergers among the nine banks.

The strikes had threatened to disrupt some of Korea's biggest and weakest banks including Korea First, Chohung, Korea Exchange, Hanil, Commercial Bank of Korea, Kangwon, Chungbuk, Seoulbank, and Peace Bank.

The banking union had planned an indefinite strike by 36,000 workers starting at midnight yesterday to oppose an expected cut of 12,000 jobs. The government had warned the unions it would deal sternly with what it called an "illegal action". **John Burton, Seoul**

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

■ UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	113.0	110.7	5.4	104.9	100.6
1989	115.5	112.7	5.2	97.9	100.1
1990	116.2	112.4	5.5	82.7	93.7
1991	113.3	110.2	6.8	61.7	96.1
1992	117.0	113.6	7.4	61.8	103.2
1993	122.2	117.7	6.8	67.7	108.6
1994	129.2	124.0	6.0	79.0	112.8
1995	132.6	130.2	5.5	79.3	115.8
1996	137.5	134.7	5.4	77.0	120.6
1997	143.0	141.4	4.9	79.0	127.9
3rd qtr.1997	4.8	4.9	4.8	78.9	127.9
4th qtr.1997	4.0	5.8	4.6	80.0	127.9
1st qtr.1998	5.1	4.7	4.6	81.7	129.0
2nd qtr.1998	7.8	4.0	4.4	80.3	128.2
September	4.2	5.0	4.9	80.4	127.9
October	3.4	5.8	4.7	78.5	128.5
November	4.2	5.8	4.6	82.6	128.2
December	4.6	5.7	4.6	78.9	127.9
January 1998	4.9	5.4	4.6	79.6	127.8
February	4.9	4.3	4.6	82.2	128.0
March	5.5	4.5	4.7	83.2	129.0
April	7.0	4.3	4.3	80.0	128.8
May	8.2	4.6	4.3	81.2	128.4
June	7.8	3.2	4.5	81.3	128.2
July	5.6	2.0			128.4
August		3.1			

■ JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	122.6	113.1	2.5	135.2	98.4
1989	132.8	119.7	2.2	146.3	102.4
1990	141.6	124.5	2.1	149.8	99.9
1991	144.5	126.8	2.1	144.2	95.3
1992	139.7	119.0	2.1	124.2	91.0
1993	131.7	113.6	2.5	105.8	92.5
1994	129.4	114.5	2.9	99.4	97.4
1995	128.4	118.5	3.1	103.2	99.6
1996	132.6	121.7	3.3	115.3	100.6
1997	132.0	126.8	3.4	120.6	97.7
3rd qtr.1997	−1.5	3.9	3.4	121.0	99.6
4th qtr.1997	−2.9	−0.7	3.4	118.7	97.7
1st qtr.1998	−8.0	−3.9	3.6	110.4	96.8
2nd qtr.1998		−8.5		104.2	96.8
September	−2.0	4.2	3.4	122.1	99.6
October	−2.3	1.3	3.4	119.7	99.1
November	−2.1	−2.7	3.5	116.7	98.4
December	−4.4	−0.9	3.4	119.5	97.7
January 1998	−1.8	−2.6	3.5	112.0	97.6
February	−5.2	−3.9	3.6	107.4	97.0
March	−18.0	−5.1	3.8	112.0	96.8
April	10.8	−6.6	4.1	105.7	96.2
May		−11.2	4.3	98.2	96.4
June		−7.6		107.6	96.8
July		−9.2			97.5
August					

■ GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	109.1	106.3	6.2	165.1	92.7
1989	111.9	111.4	5.6	219.5	96.7
1990	119.7	117.2	4.8	261.9	98.3
1991	125.0	121.7	4.2	297.9	95.5
1992	122.8	120.0	7.7	287.9	88.5
1993	119.7	112.6	7.9	229.0	93.5
1994	117.6	117.6	8.4	241.2	102.4
1995	118.5	119.4	8.2	268.3	98.1
1996	117.2	119.0	8.8	274.1	101.7
1997	115.7	112.5	9.7	282.8	109.3
3rd qtr.1997	−3.1	2.7	10.1	286.1	109.6
4th qtr.1997	−1.4	3.3	10.3	298.3	109.3
1st qtr.1998	0.5	5.7	10.0	318.6	111.7
2nd qtr.1998	−1.4	3.4	9.8	363.9	111.9
September	−3.4	1.4	10.2	289.1	109.6
October	0.8	3.8	10.3	292.5	109.4
November	−2.3	2.9	10.3	300.8	109.0
December	−2.6	3.2	10.3	301.6	109.3
January 1998	0.6	7.8	10.1	301.6	110.0
February	−0.1	4.9	10.0	317.5	111.0
March	1.1	4.4	10.0	335.8	111.7
April	−1.3	3.0	10.0	352.5	111.5
May	−0.1	5.5	9.8	369.1	111.7
June	−2.9	1.6	9.7	371.6	111.9
July	2.6	2.8	9.6		111.8
August					

■ FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	107.9	107.2	10.0	135.3	101.4
1989	109.5	111.1	9.4	160.6	101.3
1990	110.4	112.8	8.9	163.2	94.9
1991	110.2	111.5	9.4	128.2	96.4
1992	110.5	110.1	10.4	109.5	95.7
1993	110.7	105.9	11.7	90.0	98.0
1994	110.5	110.0	12.3	104.1	104.0
1995	110.6	112.4	11.6		98.5
1996	110.2	112.6	12.3		101.9
1997	111.3	116.8	12.5		106.7
3rd qtr.1997	1.7	5.1	12.5		106.5
4th qtr.1997	3.0	6.4	12.4		106.7
1st qtr.1998	2.3	7.3	12.1		108.4
2nd qtr.1998	3.3	5.1	11.9		109.3
September	3.5	4.6	12.5		106.5
October	4.4	6.8	12.5		106.5
November	−0.5	5.1	12.4		106.6
December	5.3	7.3	12.3		106.7
January 1998	5.7	6.6	12.2		107.0
February	2.0	6.7	12.1		107.6
March	−0.8	8.5	12.0		108.4
April	4.0	4.0	11.9		108.8
May	1.2	6.8	11.9		108.8
June	4.9	5.3	11.8		109.3
July	2.9	-	11.8		110.0
August					

■ ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1988	107.9	114.3	10.0	100.3
1989	116.9	118.7	10.0	98.3
1990	114.4	118.0	9.1	94.0
1991	114.8	116.9	8.8	97.4
1992	116.9	115.4	9.0	91.4
1993	113.5	113.0	10.3	99.2
1994	106.5	119.9	11.4	104.8
1995	101.3	127.3	11.9	103.7
1996	98.9	123.7	12.0	108.3
1997	105.6	127.1		114.9
3rd qtr.1997	8.7	3.4	12.1	112.9
4th qtr.1997	7.9	5.6	12.1	114.9
1st qtr.1998		3.4	12.1	116.9
2nd qtr.1998		1.3		114.2
September	8.2	2.4	n.a.	112.9
October	8.4	4.5	n.a.	113.2
November	7.4	4.5	n.a.	113.9
December	7.8	7.8	n.a.	114.9
January 1998		6.5	n.a.	116.3
February		2.4	n.a.	116.8
March		1.3	n.a.	116.9
April		0.7	n.a.	116.3
May		2.9	n.a.	115.3
June		0.3	n.a.	114.2
July		1.6	n.a.	
August				

■ UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	117.8	111.7	8.6	144.0	96.4
1989	120.1	114.0	7.2	124.3	95.3
1990	121.1	113.7	6.9	97.7	92.3
1991	119.4	109.9	8.8	68.6	97.4
1992	120.4	110.2	10.1	69.6	101.0
1993	123.9	112.6	10.4	76.5	106.8
1994	128.5	118.7	9.5	93.7	110.5
1995	129.9	121.2	8.7	107.4	110.1
1996	133.7	122.6	8.2	131.1	113.7
1997	140.7	124.3	7.1	162.0	115.5
3rd qtr.1997	5.3	1.9	6.8	165.3	114.7
4th qtr.1997	5.6	0.0	6.5	165.0	115.5
1st qtr.1998	5.2	0.3	6.4	159.0	115.0
2nd qtr.1998	3.6	1.0		166.5	114.0
September	3.9	1.4	6.7	168.5	114.7
October	6.5	1.4	6.7	173.3	115.4
November	4.9	0.5	6.5	161.7	115.8
December	5.3	0.1	6.4	160.1	115.5
January 1998	6.8	−0.1	6.4	155.5	115.5
February	4.6	0.0	6.5	160.3	115.7
March	4.3	1.1	6.4	161.4	115.1
April	3.9	1.5	6.3	162.4	114.7
May	4.7	1.2	6.2	168.1	114.2
June	2.0	0.4		169.5	114.0
July	3.1	0.0			113.6
August	2.9				112.5

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. **Retail sales volume:** data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). **Industrial production:** data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). **Unemployment rate:** OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. **Vacancy rate indicator:** relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. **Composite leading indicator:** OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

SCOTLAND MPS DEMAND PROBE INTO GOVERNMENT ASSISTANCE AS US GROUP REVEALS TWO PLANTS TO CLOSE

Viasystems to shed 1,300 jobs

By Kevin Brown and Andrew Parker

Viasystems, a privately-owned US company based in St Louis, is to shed 1,300 jobs from two plants in the Borders area of Scotland.

The revelation prompted Scottish MPs to call for an investigation into the use of public money for the company's plant in Newcastle, in north-east England, which employs 450 people and is expected to expand further.

Viasystems said it would close its printed circuit board plant in Galashiels in January. The factory in Selkirk will close in June. The closures are a substantial blow to the Borders region, which has suffered hundreds of job losses recently because of retrenchment by Dawson International, the textiles group which owns Pringle knitwear and other local companies.

Viasystems, the world's biggest independent manufacturer of PCBs, said the closure followed a strategic review of operations in Europe, where it has expanded rapidly over the past year.

R.V. Linn, the company's European vice-president, said the "timing and severity" of the announcement reflected the strength of the pound and softness in the world market for PCBs.

But Michael Moore and Archie Kirkwood, the opposition Liberal Democrat MPs for the Borders area, said there should be an inquiry into the provision of grants for the Newcastle plant.

"This is absolutely horrific for the Borders. It is ripping the heart out of the local economy," said Mr Moore. "People feel that their jobs are simply being transferred in such a way that the export of jobs is being subsidised by the taxpayer."

Mr Moore said the closure announcement underlined the unfairness of regional selective assistance, which is available in areas of central Scotland and the north-east of England but not in the Borders.

"At the very least, people north and south of the [Scottish] border are entitled to know what has gone on here," he said.

Gus Macdonald, the Scottish industry minister, said the Scottish Office had offered assistance to Viasystems, to try to persuade the company to maintain part of its production in the Borders. "They have made it clear they aren't interested in getting assistance," he added. The Scottish Office set aside £1m this year to deal with the spate of redundancies in the Borders.

● More than a hundred of the 1,100 employees facing the loss of their jobs at Siemens' semiconductor plant in north-east England, are being offered relocation overseas by the German electronics group, Chris Tighe writes. Siemens, which announced closure of its plant in August, has now made individual offers to some technical and administrative staff of transfer to other company sites in the USA, Taiwan, Germany, Austria and Portugal.

LABOUR CONFERENCE

Blair outlines reform package to party

By Robert Peston, Political Editor

Ovation: Tony Blair and wife Cherie greet supporters after his speech to the Labour party conference in Blackpool PA

Tony Blair, the prime minister, yesterday set the government on course for a contentious package of reforms to the welfare state and education system, while resisting pressure to soften his anti-inflation campaign.

In an uncompromising speech to the governing Labour party's annual conference, marking his seventeenth month in power, he insisted it was "better to be unpopular than wrong".

Vowing there would be no U-turns on the principles underlying the modernisation of his party, he said the electorate wanted a government "not in the pocket of the trade unions, not taxing them through the roof, not chasing after every passing fad of the political fringe".

It was intended to sound the death knell of Labour's left and its old right. In particular, Mr Blair said he would resist all calls to "scrap the Bank of England's [the UK central bank] independence and intervene to devalue the pound". He added: "We've sacrificed long-term strength far too often playing that game."

If that was addressed particularly to critics in the trade union movement, he also lectured business. "Your fundamental problem is not high interest rates or a high pound," he said. "It is too few first-class managers, too little investment, too little productivity."

There were a handful of policy announcements, including a proposed requirement on all new welfare claimants, including lone parents and the disabled, to have an interview before qualifying for benefit payments.

Intended to help them look for work, it will be attacked by some lobby groups as likely to deter disadvantaged individuals from claiming their entitlements.

Mr Blair unveiled a new programme to improve cancer services, tapping £400m ($672m) of National Lottery proceeds.

He confirmed that the the government's programme for the next parliament would include a welfare reform bill, the beginning of the difficult process of tightening conditions for claiming disability benefits and possibly the first stage of a comprehensive pensions overhaul.

There was also strong backing for David Blunkett, the chief education minister, and his plan to gear teachers' pay more closely to performance and make it easier to sack bad teachers.

He gave a preview of a forthcoming government paper on the family, which would concentrate on practical support.

Meanwhile the prime minister attempted to deflect complaints that his plans to remove hereditary peers from the House of Lords would give him unprecedented patronage powers.

See Editorial Comment

Ministry 'failed to act on BSE loopholes'

By Gautam Malkani

Abattoirs would have paid more heed to regulations aimed at protecting the public from BSE if they had been policed properly by the agriculture ministry, the inquiry into the the crisis was told yesterday.

The inquiry heard last week that it was not until 1995 that officials realised safeguards against BSE introduced in November 1989 were not being properly observed.

Peter Carrigan, a consultant technologist to the meat industry who has worked in the abattoir industry, said in written evidence that "the regulations might not have existed at all" given the effectiveness of the inspections.

In a letter to Keith Meldrum, the chief veterinary officer, dated June 12 1995, Mr Carrigan said: "Put simply, people have cheated, and will continue to do so because the legislation, updated though it may be, has gaps in it large enough to accommodate a horse and cart."

He added that "there have been businesses like mine and others who have suffered terribly because we have stuck to the rules".

In his reply, Mr Meldrum rejected as "not practical in law" the recommendation to make meat inspectors responsible for staining specified bovine material, such as spinal cord and brain, that carry the infective agent. The regulations demanded that these be removed from cattle carcases to stop them entering the human food chain.

The rules, together with a ban on meat and bonemeal, was the government's main line of defence against the risk to human health. It is now thought that there is a link between BSE and new variant Creutzfeldt-Jakob Disease, the fatal human brain condition.

Mr Carrigan later said: "I would think that when someone of my experience sent a letter like that to the CVO in the middle of a national crisis they would have adapted but they didn't until much later."

The ministry had been alerted to these concerns as early as December 12 1990 in a separate letter from Mr Carrigan to Alan Lawrence at the ministry, which said: "I'm sorry to have to report that the rules on staining are being grossly flouted and there are areas which require your very urgent attention."

Privatised trains may need engines replacing

By Charles Batchelor, Transport Correspondent

Britain's privatised train companies face penalties amounting to millions of pounds for cancellations caused by the unreliability of relatively new trains.

Three companies are already struggling to meet performance targets because of trains that are only six years old.

The problem with many trains inherited from British Rail, the former state network, was that they were designed to meet tight cost constraints rather than to maximise reliability when BR was working under tough budget limits imposed by the government, industry observers said.

Thames Trains, which runs services between London and south-west England, may have to renew all the motors on its fleet because they are so unreliable.

Chiltern Railways, which runs trains between London and Birmingham in the English midlands, said it was replacing the defective diesel motors on its trains at a cost of £28,000 ($47,040) each. The company was last month forced to provide £2.5m worth of passenger improvements by the franchising director to compensate for a sharp increase in cancellations.

Connex Rail, part of CGEA, the transport subsidiary of Vivendi, a French utilities group, said there were "deep-seated" design problems with its six-year old Networker trains, including faulty doors and traction motor mountings.

Thames is looking at the possibility of modifying the engines. It has 84 trains with two motors in each wagon and may have to renew 320.

"The engines are becoming increasingly unreliable and we face significant problems to replace them," said Martin Ballinger, managing director of Go-Ahead, the bus and rail group which owns the Thames franchise. Breakdowns are causing Thames to miss its performance targets, prompting penalty payments.

The company said it experienced breakdowns on average every 17,700km, compared with a frequency of 56,000-65,000km on the best performing versions of this type of train.

Thames and Chiltern trains use diesel engines made by Perkins, owned by Caterpillar, the world's biggest maker of construction equipment.

NEWS DIGEST

COMPETITION

Water groups accused of excessive price increases

The UK's privatised water companies were yesterday criticised for resisting competition and allowing water price rises to industry to outpace inflation increases. The UK last year had the sixth most expensive water costs in a survey of 15 industrialised nations carried out by National Utility Services, which provides utility cost control services to 750,000 businesses around the world. Water cost 70.55p ($1.17) a cubic metre, based on a business consumer occupying a 4,050 sq m city centre office block. Germany was the most expensive at 113.94p followed by Denmark at 97.81p; Belgium at 82.1p; Netherlands at 74.36p and France at 73.54p. Average water costs at five US cities were 30.64p a cubic metre. Cheapest water costs were in Canada at 24.02p.

NUS reported that UK prices had risen by more than 20 per cent in five years and by 6.26 per cent in the 12 months to the end of July. It said that UK water companies continued to operate largely as regional monopolies "opposing any intrusion into their domain". Water UK, which represents water companies, said its members did not oppose competition but were concerned that companies could "cherry pick" customers in areas of high demand, leaving consumers in rural and more remote areas to pay higher bills. **Andrew Taylor, London**

OFFSHORE COMPANIES

Islands fight publication move

Jersey, Guernsey and the Isle of Man are to fight a possible UK government proposal to force all companies on the islands to publish their accounts. The proposal was contained in a leaked draft of a Home Office report into financial regulation on the islands, which are Crown dependencies but not subject to UK law. Jersey and Guernsey are in the English Channel between England and France; the Isle of Man is in the Irish Sea.

The islands' governments are reluctant to comment. But the leaked proposals were attacked by Laurie Morgan, president of the advisory and finance committee of the States of Guernsey, the Channel Island's parliament. He is expected to voice his concerns in a statement today. The report on the islands, by Andrew Edwards, a Treasury official, was commissioned because of government concern that loopholes in regulation might be allowing financial crime. The islands believe their financial services industries are well regulated.

The move is likely to be strongly resisted because many other jurisdictions – including US states such as Delaware and Nevada – also exempt some companies from filing public accounts. **Robert Wright, London**

SULTANATE OF BRUNEI

KPMG appeals against ruling

KPMG, the Big Five accountancy firm, yesterday began its attempt in the Court of Appeal to overturn an injunction granted in favour of Prince Jefri of Brunei, the disaffected younger brother of the Sultan. Prince Jefri said KPMG should stop working for the Brunei Investment Agency in its quest for funds missing from the troubled sultanate. He said there was a risk KPMG would accidentally leak information about his personal affairs as they had acted for him in the past. David Donaldson, QC, KPMG's lawyer, argued that so-called Chinese-walls would protect the prince. He added there was "dismay" in Brunei when investigations came to a "grinding halt" under the injunction as the amounts involved totalled "several billion dollars".

Judgment is expected this week. **Jim Kelly, London**

CINEMA

Virgin plans US-style megaplex

Richard Branson's Virgin Group is spending £8.5m ($14m) to build a 20-screen cinema complex in Sheffield, northern England, which it claims will be a UK version of a US-style megaplex including the biggest screen in the country. It is common for several very big cinema complexes to operate in the same cities in North America, but not in the UK, where the market is less mature. But the opening in early November of the Sheffield "megaplex" – which Virgin defines as a combination of 15 or more screens and big retail facilities – will mark a watershed in the UK cinema business because it will compete directly against a Warner Village 11-screen complex a few miles away at Meadowhall. Warner Vilge is a joint venture between Time Warner and Village Roadshow, the US and Australian media groups. Warner Village also plans a £12m 14-screen city centre multiplex in Sheffield in spring 2000. The move should indicate whether several big complexes can trade successfully in the same area. **Alice Rawsthorn, London**

AIRPORT DEVELOPMENTS

6,000 jobs to be created

More than 6,000 jobs are expected to be created in the next five years in two separate airport developments in the north of England. Peel Holdings, a property group, has won government approval for plans to invest £30m ($50m) in a new terminal at Liverpool Airport, in which the company owns a majority stake. Peel has also won preferred purchaser status from the Ministry of Defence for the former Royal Air Force station near Doncaster, which the company wants to develop as a commercial airport serving international flights and freight services. The Liverpool development is expected to win £8m in European regional development funding. The airport would be capable of handling 3m. **Sheila Jones, Manchester**

Corporate chiefs' crystal ball gazing sees apocalypse now

A raft of profit warnings suggests that the downturn has spread from manufacturing to other sectors. **Christopher Adams** *reports*

An avalanche of profit warnings and dismal trading updates from British companies has deepened the gloom surrounding the UK economy. Crystal ball gazing by corporate executives has become increasingly apocalyptic in recent weeks.

Companies as varied as Diageo, the food and drinks conglomerate, Shell, the oil giant, EMI, the music group and John Lewis and Kingfisher, the retailers – as well as logistics and packaging groups – have echoed downbeat comments from BTR, Charter, Scapa and Royal Doulton, all manufacturers.

Sundhir Junankar, associate director of economic analysis at the Confederation of British Industry, the employers' lobby, says profit warnings across a broad swathe of UK business show the downturn in manufacturing has begun to spread to other parts of the economy. "They are a clear signal the economy is beginning to slow," he says.

The CBI is forecasting company profits to grow by 0.1 per cent in 1999, compared with 0.7 per cent this year and 3 per cent in 1997.

"Revisions to consensus earnings estimates have come through in cyclical areas: chemicals, steel, pulp and capital goods," says Ian Scott, equity strategist at Lehman Brothers. "The fear is that the slowdown in Asia will transmit to western economies."

Many companies, especially those in the service sector, are sheltered from the immediate effects of the strong pound and economic crisis in Asia because they do not export substantial quantities.

But the malaise could spread as fears over job losses grow and consumer spending falls.

The latest retail sales data show that underlying growth in spending slowed last month to its lowest rate in two years. But fears over the scale of a wider downturn could be exaggerated, say analysts.

The causes of pessimism in the engineering sector, for example, are different to those in the retail sector.

For retailers, says John Richards, analyst at BT Alex Brown, the key issue is the extent to which their industry has matured. "There is much excess capacity and it's difficult to get rid of that," he adds.

Retailers have attributed the recent slowdown in spending to a variety of one-off factors. John Lewis, regarded as an indicator of future trends in the sector, two weeks ago reported its first underlying profits decline in five years.

But the 5 per cent slide in first-half profitability this year was attributed to the effects of unseasonal weather and the absence of windfall payments from building societies – savings and loans institutions whose members voted to abandon their mutually-owned status and opt for a public offering.

Audio, television and electrical equipment bore the brunt – expensive purchases, but also areas where Asian imports have become much more cheaply priced.

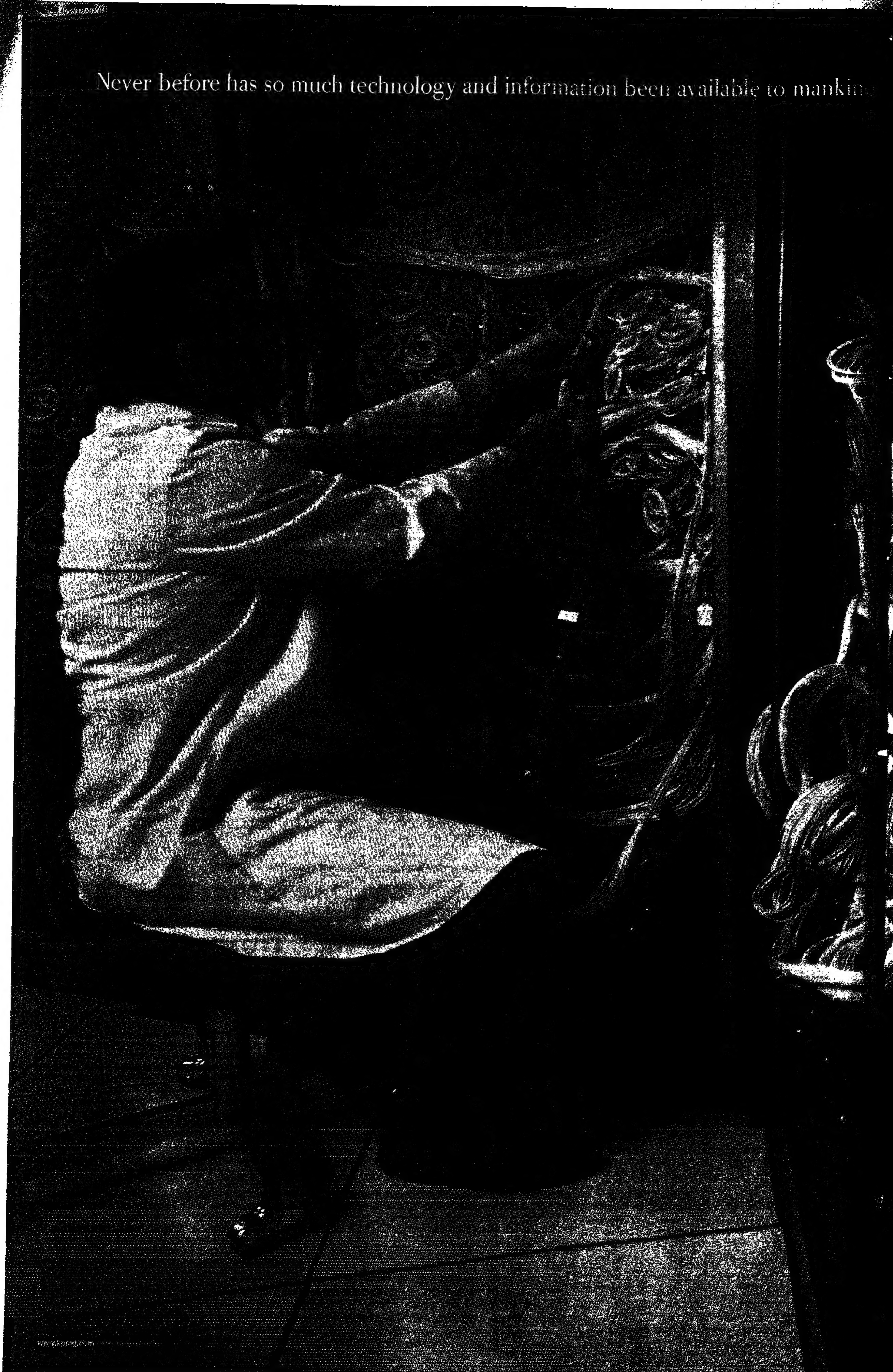
Those searching for an indicator of how exaggerated concerns over the economy have become could look at the share prices of housebuilders, which have fallen sharply on signs of slowing house price inflation.

Analysts say the falls show investors are factoring in a decline of up to 40 per cent in earnings next year, nearly double the decline factored into consensus estimates. "House prices are rising more slowly, but the trend is still upward," says Mark Hake of Merrill Lynch.

However, the biggest threat to company profits is unlikely to be Asia or the strong pound.

Wages account for two-thirds of company costs and private sector pay increased from 4.8 per cent in June to 5 per cent in July.

"Pay increases have been more of a problem in the latest cycle on profits than prices have," says Richard Iley, economist at ABN Amro. The number of jobless is at an 18-year low and many firms are struggling to contain wage costs.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NORMA COHEN
THE PROPERTY MARKET

Welcome to corporate-land

Business parks not only appear to hold more attractions for employers than standard offices, they also outperform them

When it comes to choosing a site for a large corporate headquarters, suburbia, it seems, holds more attractions for the employer than downtown.

The suburban business park, an oxymoron to some, has become an established feature of the UK property market, just as it did several decades earlier in the US. Research from both sides of the Atlantic suggest that these business parks, over time, outperform their counterparts in Central Business Districts (CBDs).

New research to be released next week by Strutt & Parker, the property consultancy specialising in business parks, and the Investment Property Databank, the leading UK property performance index, shows that business parks have outperformed standard offices in the UK by an average of nearly 50 per cent a year between 1986 and 1997.

Between these years, business parks, as defined by Strutt & Parker, produced average annualised returns of 13.2 per cent against 8.6 per cent for standard offices.

When individual business park returns are compared with offices in their immediate area, the results are equally startling. Arlington Securities' Aztec West development, near the UK city of Bristol, for instance, offered average annualised total returns over the three years to December 1997 of 7.4 per cent, roughly twice that of local offices. At Stockley Park, near Heathrow, west of London, the returns for the comparable period were 13.6 per cent against 10.5 per cent for standard offices. In every year since 1988, business parks outperformed standard offices, barring a year of exceptional office out-performance in 1993.

'They lure the highly skilled suburban female workforce'

Perhaps coincidentally, that trend is similarly reflected in research from LaSalle Partners, the Chicago-based real estate consultancy, which found that suburban-based office properties substantially outperformed CBD-based offices in the US in every year since 1989. Before then, CBD offices were outperformers.

The LaSalle data include non-business park properties but the overall picture cannot be discounted.

Andrew Martin, partner at Strutt & Parker with responsibility for business parks, says the reason for outperformance is simple. "The truth of the matter is that these are what the occupiers really wanted."

Increasingly, the employers most eager for business park space are those eager to recruit large numbers of highly skilled – and highly paid – workers.

Jacques Gordon, head of research at LaSalle Partners, advances a theory first put forward by Bill Wheaton, head of Massachusetts Institute of Technology's Centre for Real Estate and founder of CB Richard Ellis/Torto Wheaton, a consultancy.

The real attraction of business parks is that they lure the highly skilled suburban-based female workforce. Mr Wheaton calculates that employers would have to spend 15 to 20 per cent more in wages to attract the same calibre of staff in a CBD environment.

Women workers, in particular, he says, are attracted by employment a short drive from home in pleasant surroundings located close to amenities that enable them to pick up groceries.

For that reason, both Mr Martin and Mr Gordon say, the differentials in the quality of the project make a large impact on a business park's ultimate value.

"The amenity packages that tenants are looking for are certainly key," says Mr Gordon. "They are looking for a beautiful environment."

The purpose of a business park, he argues, "is to keep the employee on campus and productive. They want to keep employees working eight, nine, 10 hours a day".

Some of the US's best business parks are Microsoft's Overlake Campus, some 4m sq ft consisting of 48 buildings outside Redmond, Washington, as well as Nike's campus at Beaverton, Oregon.

"What they all have in common is the goal to control the work environment." Mr Gordon says. The provision of childcare and other services "is enlightened self-interest".

"When you drive into the business park," Mr Gordon concludes, "you are in corporate-land."

Working example: Microsoft's campus in Washington

JOHN KAY

A scientific formula for playing games in the dark

Mathematician John Nash's equilibrium theory can help us think about problems – but not necessarily solve them

Two star-crossed lovers – let us call them Linda and John – have a date this evening. But, once again, John has let the battery on his mobile phone go flat. They cannot talk to each other. What should they do?

John Nash, whose biography has just been published (*A Beautiful Mind*, Sylvia Nasar, Faber & Faber), is an American mathematician who devised a framework for thinking about such problems – the theory of non-co-operative games. Two or more agents make independent decisions and the outcome depends, for better or worse, on the interaction between them. That is the situation faced by Linda and John. Everyone engaged in business, politics, or everyday life plays non-co-operative games again and again.

John sits there thinking "what will Linda do?" What she will do will depend, in turn, on what she thinks John will do. But what John will do depends, in turn, on what John thinks Linda thinks that John will do. And so on, for ever.

But suppose Linda and John share a favourite restaurant – the Elizabeth in Oxford, perhaps. Then Linda might think: suppose John were to be at the Elizabeth, what would be the best course of action for me? To go to the Elizabeth, of course. And the same is true for Linda. So even without a chat on the mobile phone, it would seem to make good sense for each to turn up at the Elizabeth.

That happy event is a Nash equilibrium. It cuts through endless rounds of speculation about the motives of others. Is there an outcome in which everyone is doing what is best for them, given the choices which have been made by everyone else? That is the definition of a Nash equilibrium. If the concept seems rather obvious, it demonstrates that Nash's idea has one of the hallmarks of real scientific originality. It is obvious, once it has been pointed out to you. It wasn't before.

Still, there are problems to which the Nash solution is less trite than the recommendation to go to the Elizabeth at eight. Take the familiar business problem of how much capacity to build. The price you realise for your output depends on the total amount of capacity which everyone installs. This has a precise Nash equilibrium solution.

The total amount of capacity which will be built increases with the number of companies which enter – but at a diminishing rate – and the amount of excess capacity will rise with the ratio of fixed to variable costs. We can write out the mathematics of it. And understand better why industries with higher fixed costs are prone to cyclical instability, why they experience periods of acute price competition, and tend to be subject to cartels and to regular phases of rationalisation and consolidation.

But a Nash equilibrium is a funny kind of solution. It need not be the outcome. Linda might get fed up and go home. John might have misunderstood what Linda said about the Elizabeth. And Linda and John could have found each other in many different Nash equilibria. If they want to be together sufficiently then meeting in a greasy spoon caff is another solution.

If there are many Nash equilibria, and there are often are, then better ones should be preferred to worse. Still, it can happen the other way round. The QWERTY layout for keyboards is grossly inefficient. It was invented to slow users down in the days when typewriter keys were liable to jam. Other systems, like the Dvorak layout, are simpler and quicker to use. But if most machines are made in QWERTY, the sensible thing to do is to learn and use QWERTY. And that is true for everyone else. Which is why we are stuck, for ever, with an inefficient Nash equilibrium. It is a demonstration of the power of the concept. Having reached a Nash equilibrium, we cannot leave it.

More confusing still are the cases where several Nash equilibria are equally good. Suppose John likes the Elizabeth but Linda prefers the Petit Blanc. If each follows their own preference, each will dine alone. But if Linda goes to the Elizabeth, she takes the risk that John, with equivalent altruism, will be at Le Petit Blanc – leaving them with the worse of all outcomes, in which they dine separately at their least preferred restaurants. The game is called the Battle of the Sexes by mathematicians, because it displays familiar features of personal relationships – lack of communication, confusion, and scope for the best of motives to be misunderstood.

But the Battle of the Sexes is actually the universal problem of co-ordination in business. It does not matter much what the outcome is, only that we should all pursue the same actions. The general answer to this issue is hierarchy. If John's wishes are paramount, the outcome is likely to be better – not just for John, but for Linda. It does not really matter which side of the road we drive on, but it matters a great deal that everyone should drive on the same side of the road, and that is why it is necessary that someone should tell us what to do and that we should obey them.

Not an idea that goes down well in Oxford, or at Princeton, where Nash spent his career. That career – characterised by phases of outstanding originality broken by long bouts of paranoid schizophrenia – is a telling reminder that the originality and sensitivity associated with great insight may actually be disabling, not helpful, in everyday life. But just as we need not admire Mozart's character to enjoy his music, we need not envy Nash's life to benefit from his ideas.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

A scientific formula for playing games in the dark

A star role in the City of Angels?

Christopher Parkes talks to the outgoing director general of LA Opera about his achievements and hopes for the future

General director Peter Hemmings: LA Opera has ridden through the social seismic and economic shocks of the 1990s and still made its mark

Even after 13 years in Los Angeles, Peter Hemmings seems untouched by the core ethos of southern California. In a society obsessed with youth and well-being, where death is considered an option and retirement is for municipal bus drivers, the 64-year-old general director of the Los Angeles Opera is preparing to leave and put his feet up in his native Britain.

To some extent, Hemmings is playing out the role of the good parent. After bringing up the baby and seeing it safely through its troubled adolescence, it is time to step into the background. But the time is also approaching when someone of a rather more heroic nature than this mild-mannered Englishman will be needed to drive the company into a greatly expanded role, and what Hemmings sees as its proper place in the cultural life of the nation's second biggest city and that of the US as a whole.

He has had a bit of a rough ride these past few months, fielding criticisms that the opera's repertoire is too repetitive and conservative. But, as he points out, the whole of opera has a repertoire of about 200 pieces of which maybe 30 are reliable crowd-pleasers. As for innovation, he says about 20 new US operas will premiere this season, including Tobias Picker's adaptation of Roald Dahl's *Fantastic Mr Fox* in LA.

Hemmings is far more concerned about the next stage in the opera's evolution, due to start in 2002, when the city's Philharmonic Orchestra will depart the Dorothy Chandler Music Center and take up residence across the road in the Frank Gehry-designed Walt Disney Concert Hall. That will leave the opera as the music centre's principal tenant, and present it with the challenge of almost doubling today's number of performances from 55 a year to up to 100.

Hemmings' achievements in guiding the company to prominence from a standing start tally neatly with those of his past. In 1962 he became the inaugural administrator at Scottish Opera, and oversaw the rise of the company and Glasgow in the cultural rankings. He later worked to similar effect as general manager of the Australian Opera, and before moving to LA in his current role in 1984 he was managing director of the London Symphony Orchestra.

In 1986, LA Opera became a producer in its own right, making its debut with Plácido Domingo in Verdi's *Otello*. Domingo, a founding board member and the company's artistic consultant at the outset, retains strong links. Despite his current commitment as artistic director of the Washington Opera, he is still principal guest conductor and artistic adviser in the City of Angels.

By the tenor's own reckoning, Domingo's voice has about five more years singing in it. After that, he has ambitions to take full charge of an opera company. "He has a lot on his plate," says Hemmings. But the notion that the star could be the perfect figurehead to lead LA Opera is clearly more than a passing fancy, although there are plenty of grander competitors for Domingo's attention. After all, LA's budget of about $20m is measly in comparison with the New York Metropolitan's $170m, and even San Francisco boasts a budget of $50m.

The notion that Plácido Domingo could be the perfect figurehead to lead the opera company is clearly more than a passing fancy

Even so, Hemmings points out, LA Opera has ridden through the social, seismic and economic shocks of the 1990s and still made its mark in a country which has 110 such companies. The 3,000-plus seat auditorium is routinely filled to more than 90 per cent capacity, and ticket revenues provide a steady 60 per cent of income needs, leaving well-wishers to donate about $10m last year.

But now the opera faces the most substantial test since its inception, and Hemmings has no answer to the over-riding question – "whether there is the money and will in the city to advance LA to the topmost ranks". This, he adds, is "possibly tied in with Plácido's future involvement."

Although Los Angeles likes to think of itself as the cultural capital of the US, its claim is based on film and popular music. And, as evidenced by the 10-year struggle to raise funds to build the Walt Disney memorial concert hall, there is little fellow-feeling between the industrial and establishment branches of the arts. The Disney group contributed a conditional gift of $25m last year to the hall named for its founder only after years of arm-twisting.

Although prominent film directors have contributed their skills – Herb Ross directed the LA Opera's new production of *La bohème* for the 1993/94 season – such occasions have been rare. Hemmings says the opera needs such commitment for three years in advance, while typical screen directors' schedules are chopped into segments of two or three months. And the film industry's pay and cost structure is so far out of line with that of the traditional theatre that LA Opera's annual budget for putting on eight pieces is less than comic actor Jim Carrey can earn for making one film.

Hemmings addressed his frustration in a recent interview, when he described the film industry as a sponge. "It draws in the talent developed in live theater, music and opera but believes that the world only exists for itself." He appears to have mellowed since, however, citing the interaction which evolved when Gerald Scarfe designed the opera's 1993 *The Magic Flute*, which led directly to his work on the animated Disney feature, *Hercules*. Scarfe is now back in the LA music centre, designing *Fantastic Mr Fox*.

Hemmings also says he detects a growing desire for involvement among newcomers: those drawn to southern California by its increasing economic clout, and locals rising on the tide of growth. Leonard Green, who hails from Chicago, has emerged in the past decade as a nationally-recognised leveraged buy-out specialist and has recently taken over the opera's presidency.

Outreach programmes to the Latino community, which comprises about 40 per cent of the local population, and which last year was charmed by the west coast premiere of Mexican composer Daniel Catan's *Florencia en las Amazonas*, seem to be tempering the ethnic mix of the audience and subscription lists.

It is tempting to speculate on how much further this process could go if Plácido Domingo, born in Spain and reared in Mexico, were to move to California to fulfil his ambition to run a company. Yet more tempting is the prospect that Domingo who, according to Hemmings, draws "legions" of film stars when he sings, could work a similar spell on the actors' employers in Hollywood and bring them finally into LA's inner cultural circle.

Floored by 20 kilos of spaghetti: Franco Donatoni (centre) as himself in hospital in 'Alfred, Alfred'

STRASBOURG MUSICA 98

Wry diary of a convalescent

David Murray enjoys an autobiographical 'opera' amid a feast of contemporary French music

Musica 98, the 16th "édition" of Strasbourg's annual festival of contemporary music, is in full swing until October 3. Again Jean-Dominique Marco has devised a rich and adventurous programme, including 22 premieres, and again the Straboureeois are flocking to it in enthusiastic numbers.

In principle, *Musica* is much like Britain's Huddersfield Festival (which begins its 21st season on November 18). In practice it enjoys two colossal advantages: state funding on a scale that Huddersfield can only dream of, and its location in a big cosmopolitan city with some rather grand halls.

Last year's *Musica* was something of a Finnish orgy, centred upon a great spread of Magnus Lindberg's bracing music. This year it spotlights middle-aged French composers: Philippe Manoury, Pascal Dusapin, Philippe Hurel. But it made a special bow to 71-year-old Franco Donatoni, a Francophile contemporary of Berio and Nono, with the first staging of his "opéra-comique" *Alfred, Alfred* (co-sponsored by Nanterre and by the Nieuw Ensemble Amsterdam, who are to tour it far and wide).

It was probably unwise to bill *Alfred, Alfred* as an opera; it is slighter than that, more like an extended autobiographical squib. On a visit to Australia in 1992, Donatoni prepared a grand spaghetti carbonara (20 kilos of spaghetti, two kilos of pancetta, two litres of cream) for his hosts – and shortly afterwards went into a diabetic coma, and was rushed to Melbourne's Alfred Hospital.

In seven scenes with six "intermèdes", *Alfred, Alfred* offers a wry sort of diary about his hungry convalescence there, with Donatoni playing himself as the mute, dazed patient. The show is fattened with a filmed prologue accompanied by an earlier Donatoni piece, *Refrain*, in which he recounts his story with quizzical charm.

The *intermèdes* are solos for nurses with Fellini-esque names (Tosca Fosca la Formosa, Rosa Shock, Maristella degli Spiri), including jokey quotes from 19th-century opera. Otherwise, the Nieuw Ensemble delivered Donatoni's quirky instrumental inventions with verve, like André Wilms' staging; but *Alfred, Alfred* doesn't begin to be an "opera".

★

As for the specially featured French composers, *Musica 98* ensured that we heard them in substantial chunks. Manoury, whose ambitious, uneven *Fragments pour un portrait* – purely orchestral – was performed last month at Edinburgh, was represented here mostly by his more typical music for instruments-plus-electronics. That is uneven too, I think: some very striking ideas, some lapses into over-familiar routine. And he never knows when to stop.

Douze moments, however – adapted for mezzo-soprano and large orchestra from his recently acclaimed opera, *60è parallèle* – was crammed with intriguing music, often beautiful. Of his electronified pieces, *Jupiter* (solo flute embedded in rich and fanciful echoes derived from itself) sounded ravishing; *Neptune*, with two busy vibraphones, marimba and gong, made excellent effects at rather indulgent length.

Pluton, with the pianist Pierre-Laurent Aimard, was gripping. But Manoury's long, erotic song-cycle *En écho*, sweetly sung by Donatienne Michel-Dansac, was positively over-egged with electronics, sumptuous to the point of sickliness.

By contrast, Pascal Dusapin's recent music has gone stark and spare, almost neo-medieval. He wrings intense feeling from a tiny range of intervals, obsessively worked. The cellist Sonia Wieder-Atherton played his *Celo* with orchestra, and the solo *Immer*, with passionate sympathy. Two fine, sober choral works, *Umbrae Mortis* and *Granum Sinapsis* (after Meister Eckhart) were impeccably sung by the Accentus choir.

As for Philippe Hurel, I fear I'm quite deaf to whatever he means to be doing. If there is any musical impetus that takes us from one clotted event to the next, it escapes me completely. Never mind: even for discouraging experiences like that, *Musica* is always an education and a feast.

David Murray

An enjoyably smutty fumble

THEATRE

ROBERT HANKS

Cleo, Camping
National Theatre, London SE1

There is a long and honourable tradition among British intellectuals of celebrating smutty humour. It goes back at least as far as George Orwell's 1942 essay on *"The Art of Donald McGill"*, in which he praised the way that McGill's saucy seaside postcards gave expression to "the Sancho Panza view of life".

Terry Johnson is the tradition's foremost living exponent – he tackled the subject in *Hysteria*, with its panoply of Freudian jokes, and in *Dead Funny*, a comedy whose plot is sparked by the death of Benny Hill; and in his latest play he mines the motherlode of postwar British comedy, the Carry On films.

For the occasion, the Lyttelton auditorium has been transformed into a provincial British cinema *circa* 1970, with glowing, nacreous proscenium and ruched purple curtains which lift to reveal a cinema screen: the Rank gong is beaten, and crazy music plays over cartoonish credits, instantly recognisable as rip-offs of the Carry On style.

Recognisability turns out to be the chief pleasure of Johnson's production, in fact. After the screen has vanished, revealing the interior of a film-lot caravan, the first laugh goes to Geoffrey Hutchings simply for being recognisable as Sid James; Adam Godley, playing Kenneth Williams, earns a spontaneous round of applause for his first drawled, supercilious "Myairss"; and Samantha Spiro's Barbara Windsor is quite uncannily like the real thing – indeed, the real Barbara Windsor, who on the first night was sitting in the stalls, looked in comparison like a shadowy projection of the one on stage.

Of course, it is the stars' screen personae we recognise, not the real people. One of Johnson's central themes is the extent to which the actors both resemble and are trapped by their celluloid selves. Sid is a grinning lech, the lechery seems sordid and desperate. Kenneth is indeed a snobbish prude with a taste for vulgarity, but he is also an obsessive self-hater.

Men are just as obsessed by Barbara's breasts off-screen as on. This is fertile territory, both for thought and for gags. The production has a glut of sharp double entendres. The best comes during the filming of *Carry On Cleo*, when Kenneth explains that "there's a Nubian 'and-maiden strained 'er 'and trying to get 'er black off in the sink". But he can barely tear his eyes away from the ripe, luscious subtexts bulging through the flimsy fabric of comedy; and, typically, when it comes to the crunch he is all fingers and thumbs and the straps won't come undone.

The final scene is a dispiriting fumble: Sid James is dead and with him – this seems to be Johnson's reading – the spirit of honest vulgarity that moved the best of the films. As filming starts for the dispiriting soft-porn of *Carry on Emmanuelle*, the survivors gather in the stained, tatty wreck of Sid's caravan while, in the play's coarsest touch, his shade stands watching over them.

Underneath the make-up, it seems, the clowns are all crying. If that really is all Johnson has to say, he would have been better off keeping quiet. But until the end, while he leaves the message to take care of itself, this is a marvellously enjoyable, well-acted play, and one that speaks directly to the naughty schoolboy that lurks in all of us.

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen; Sep 30

BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-212 3333
City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Schubert, Mozart and Strauss; Sep 30

OPERA
Symphony Hall
Tel: 44-121-212 3333
Das Rheingold: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson; Oct 5

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Wagner, Shchedrin and Brahms. With violin soloist Maxim Vengerov; Oct 1, 2, 3

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
La Gioconda: by Ponchielli. Conducted by Bruno Bartoletti in a staging by John Copley. The title role is sung by Jane Eaglen; Oct 1, 4

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
The Winter Queen: The Life of Elizabeth of Bohemia. Includes around 50 paintings, plus a selection of engravings and medals; to Oct 4

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Radio Symphony Orchestra Frankfurt: conducted by Hugh Wolff in Beethoven's Missa solemnis; Sep 30

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Oct 1, 3

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Richard Hickox conducts a series of works by Bruch; Oct 1, 3

OPERA
English National Opera, - London Coliseum
Tel: 44-171-632 8300
Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 30; Oct 3

Royal Albert Hall
Tel: 44-171-5898212
● Siegfried: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Stig Andersen, Graham Clark and Anne Evans; Oct 1
● Götterdämmerung: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes Stig Andersen and Anne Evans; Oct 3

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● Hallé Orchestra: conducted by Owain Arwel Hughes in works by Vaughan Williams, Holst and Elgar; Oct 1
● Royal Liverpool Philharmonic Orchestra: conducted by Marco Zambelli in a Russian programme including works by Borodin, Tchaikovsky and Mussorgsky. With piano soloist Paul Lewis; Oct 2
● Saint Louis Symphony Orchestra: conducted by Hans Vonk in works by Barber, Schumann and Beethoven. With cello soloist Lynn Harrell; Oct 3

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Simone Young in works by Janáček, Martinu and Dvořák; Sep 30
● Munich Philharmonic Orchestra: conducted by Simone Young in works by Janácek, Martinu and Dvorák; Oct 1

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Kurt Masur conducts Beethoven – The Complete Symphonic Cycle. Programme V: Oct 1, 2, 3

EXHIBITIONS
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Bonnard (1867-1947): originated at London's Tate Gallery, this major retrospective focuses on around 100 works produced between the 1890s and 1940s. Includes landscapes, still lifes, a series of nudes, and several self-portraits; to Oct 1

Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia. Includes works by Rembrandt, Dürer, Matisse and Picasso; to Jan 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Aida: by Verdi. Plácido Domingo conducts a production by Sonja Frisell, with a cast starring Maria Guleghina and Vladimir Bogachov; Oct 3
● *Lohengrin: by Wagner.* Designed and directed by Robert Wilson, with costumes by Frida Parmeggiani. James Levine conducts and the cast includes Deborah Polaski and Ben Heppner; Sep 30; Oct 3
● Samson et Dalila: by Saint-Saëns. New staging by Elijah Moshinsky, with sets and *costumes by Richard Hudson*; Oct 1, 5

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Christof Perick in works by Strauss and Mahler; Oct 1

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Stéphane Mallarmé (1842-1898): retrospective exploring the work of the French Symbolist poet, and his influential relationships with his literary and artistic contemporaries; to Jan 3

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Eugene Onegin: by Tchaikovsky. European Union Opera conducted by Vladimir Jurowski in a staging by Nikolaus Lehnhoff; Oct 5

STOCKHOLM

EXHIBITION
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
International Surrealism: works from the collection by artists including Dalí, Duchamp, Magritte, Ernst and Giacometti; to Oct 5

TOKYO

EXHIBITION
Metropolitan Art Museum
Tel: 813-3823 6921
The Carmen Thyssen-Bornemisza Collection: touring show of 94 paintings, ranging from the 18th century to the early 20th; to Oct 4

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse, Picasso, Braque, Léger and Rouault; to Jan 3

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Korea's hurdle

The country is doing all that is asked of it, but high domestic interest rates and debt levels are hampering its recovery

South Koreans call the plight in which they now find themselves "the IMF crisis". Most – though not all – observers would not blame the International Monetary Fund for the panic that hit the country at the end of last year. But it does bear a heavy responsibility for the cure. Its patient is in a sad state.

The virulent stage of Korea's disease is over. The currency was stabilised by the $57bn support package announced on December 3 last year, the subsequent agreement by international banks to reschedule their loans and the high Korean interest rates. It now suffers from a depression instead: the economy is widely expected to decline by 7 to 8 per cent this year; and informed observers believe it may shrink by another 6 to 7 per cent in 1999. In the year to the second quarter of 1998, real fixed investment fell 30 per cent and consumption 13 per cent.

Only the improvement in the external balance – equivalent to an astonishing 19 per cent of gross domestic product in the year to the second quarter – has stopped a deeper decline. This transformation also helps alter the nature of the illness. In the first half of 1998 the country generated a current account surplus of $22bn, against a deficit of $8bn in 1997 as a whole; foreign currency reserves are now rising rapidly; and the short-term foreign currency debts that triggered the collapse are being transformed into longer-term liabilities.

Korea had long modelled its development strategy on Japan's. At present it has succeeded too well. As is true of Japan, the economy is toiling under a mountain of domestic liabilities. Korea's banking system has non-performing loans estimated at around 30 per cent of GDP.

Moreover, as in Japan in its phase of rapid growth, Korea's corporate sector is hugely indebted. Cho Dong-Sung of Seoul National University has estimated the debt-equity ratio of the top 30 conglomerates (or *chaebol*) at an extraordinary seven to one at the end of 1996, with crossholdings of shares stripped out. Interest payments by companies quoted on the Korean stock market will absorb almost all of their operating profits this year.

How is such an economy to be returned to health? The programme agreed with the IMF had three central elements: tight monetary and fiscal policies, aimed at regaining the confidence of international investors; refinancing and restructuring of banks through direct government assistance; and wider policy reform to reduce the dominance of the chaebol and make the economy more efficient.

Many argue that structural reforms are unnecessary: Korea was, they suggest, merely the victim of unstable international circumstances and its own policy mistakes. Among the former they note the weak Japanese economy, the decline in the yen-dollar exchange rate, the collapse in semiconductor prices, the folly of international lenders and contagion from Thailand's devaluation. Among the latter were undue rigidity of the nominal exchange rate, sloppy regulation of the financial system and unwise liberalisation of capital inflows.

It is easy to agree that these were the proximate cause of the crisis. But behind them lay declining growth in underlying productivity and falling returns on corporate investment. The latter encouraged the undue reliance on apparently cheap foreign debt and growing corporate insolvency. Wider reforms are justified – as is the financial restructuring of both banks and over-indebted companies. Yet conditions for the changes are highly inauspicious.

When the IMF's initial programme was agreed last December, it forecast economic growth of 3.0 per cent this year, followed by 5.6 per cent in 1999. Output this year is expected to be some 10 per cent lower than then forecast. Furthermore, despite devaluation, consumer prices have been virtually unchanged since February. Consequently, real interest rates are over 10 per cent for the most creditworthy borrowers, even though nominal rates are falling. As for the less creditworthy, they can barely obtain credit. The combination of declining output with high real interest rates is lethal.

In the kingdom of the over-indebted, those with the least bad credit rating are kings. In Korea, these monarchs are the five largest *chaebol*. Their rating may partly depend on the conviction that they are too big to fail. Their superior access to the bond market gives them an overwhelming advantage. Their share of the total assets of all the *chaebol* is some 60 per cent. This now seems certain to rise, contrary to the government's desire to see less concentration of economic power.

Yet the dominance of these big conglomerates is not growing because they are healthy but because the corporate sector is so sick. While the five large *chaebol* have put forward ambitious plans to lower their debt-equity ratios to 2:1 by the end of next year, it is hard to see how they can do so: the equity market is depressed; foreign investors are unwilling to assume the debts of any subsidiaries they sell; and demand is too sluggish for them to earn their way to financial health.

The government has offered Won50,000bn ($36bn) to support the banks, with Won25,000bn for non-performing loans, Won16,000bn for re-capitalisation and Won9,000bn for deposit insurance. Unfortunately, some estimates of the sums needed for re-capitalisation alone are more than Won40,000bn. Yet if banks are inadequately refinanced, they cannot make large-scale conversions of debt into equity. Even potentially viable borrowers are then likely to fall still further into debt, making the mountain of non-performing loans grow once more.

As the economy declines, unemployment is also rising rapidly from Korea's traditional 2 per cent to 8 per cent in June, with higher joblessness sure to follow. With many also losing their businesses and no recovery in sight, Koreans are likely to lose patience. So what is to be done?

First, monetary and fiscal policy should be relaxed, even if this risks some decline in the won, now almost 50 per cent above its post-devaluation trough. Real interest rates are too high for an economy in the grips of debt deflation, particularly one without a sign of inflation. The IMF now permits a fiscal deficit of up to 4 per cent of GDP, a vast improvement on the extraordinarily restrictive approach of the first programme. But even this does not amount to a significant fiscal boost to this depressed economy.

Second, the refinancing of the banks must be generous enough for them to be able to relieve the debt burdens of their viable customers. The aim should be debt-equity swaps and expansion of credit to any borrower with reasonable prospects for survival. A government that had no net public debt before the crisis should be able to finance the needed injections of capital, even if it does mean a one-off increase in the domestic debt burden to as much as 50 per cent of GDP. But its reforms must also be powerful enough to ensure that such an operation need never be repeated.

This slump poses a harsh test for Korea, but also one for the IMF and the governments that control it. Korea was among the most successful of all developing countries. It also has a government, under President Kim Dae Jung, trying to do all that is being asked of it. Yet the chances of an early recovery look slim. This is bad news for Korea; it is little less bad for its outside advisers.

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South Korea: from dynamism to depression

	1995	96	97	98*	99*
Real GDP growth (%)	9.1	7.1	5.5	-7.5	-6.5
Private consumption (annual % change)	8.3	6.8	3.1	-12.5	-9.0
Fixed investment (annual % change)	11.7	7.1	-3.5	-35.0	-25.0
Current account balance ($bn)	-4.7	-15.3	-8.5	38.5	37.4

Source: Dresdner Kleinwort Benson * Forecast

LETTERS TO THE EDITOR

Moral hazard argument same for LTCM as for Asian economies

From Mr Robin Lee.

Sir, It is not so long ago that the financial community castigated attempts by certain Asian governments to support their financial systems. Conventional wisdom dictated that the moral hazard inherent in any such exercise would invariably lead to further and greater profligacy in the future. The view was that these economies had to learn the harsh realities of indiscriminate lending to cronies for unviable and excessively risky projects.

Barely 12 months later, the Federal Reserve Bank of New York has facilitated negotiations to prevent the fall of Long-Term Capital Management. While the Fed will highlight the key word, "facilitate", the FT has suggested that pressure was being applied by the Fed. Not surprisingly, the Fed has stressed that no public funds will be involved in any rescue of John Meriwether's LTCM. I should hope not, because as big as LTCM is in many people's eyes, it must surely amount to little in the scheme of the entire US financial system.

This leads me to another question: why is the Fed even trying to help LTCM if the fund's size is so inconsequential relative to the financial system, particularly if it was so wrong for governments to rescue entire financial systems? Applying the arguments used 12 months ago, I would suggest that the facilitative role of the Fed places unnecessary moral hazard on the financial system. How will lenders, sophisticated financial institutions, ever learn to risk manage more properly their exposures to such vehicles if the Fed is so quick to step in at the hint of a collapse?

If, on the other hand, the collapse of the hedge fund does indeed pose a systemic risk, then US regulators have failed as they allow such funds to be laxly supervised by arguing that these investors are so sophisticated they do not require any regulatory assistance.

As an aside, emerging markets have argued that the potential impact of such funds on the wider market, and therefore the wider universe of investors, can be significant and is therefore reason enough for these funds to be regulated as stringently as most forms of collective investment schemes.

I have not found any justifiable economic rationale for the Fed's action. Surely it cannot be possible that the Fed and Wall Street are simply trying to help their cronies out of a tight spot? But then again, who were the investors? A few "masters of the universe", a couple of Nobel laureates, and a former Fed personality. Nah, surely not in America.

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Starr's courage is worthy of respect

From Mr Rolf Joachim Siegen.

Sir, In your leader "Time to decide" (September 23), you wrote: "When the American people elected Bill Clinton, they knew what they were getting."

Yes, they did. But now Mr Clinton has become an icon for moral flaccidity and promiscuity worldwide.

Special investigator Kenneth Starr has forced Mr Clinton's champions in the US publicly to acknowledge the real character of their president. That hurts. This is why many Americans now treat Mr Starr with such hostility. Just as carriers of bad tidings were put to death by despots, Mr Starr is the focus of public scorn. For this reason, I respect the courage of Kenneth Starr all the more.

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'Hawks' and 'doves' of MPC feel the pressure

From Mr Bryan Cassidy MEP.

Sir, I hesitate to disagree with such a distinguished economist as Willem Buiter, who claimed that the independence of the members of the European Central Bank's board could be prejudiced by their voting not being made public (Letters, September 24). The example of the Bank of England's Monetary Policy Committee (MPC), of which Prof Buiter is a member, leads me to the conclusion that the publication of the voting there leads to pressure from the media and so to MPC members being identified as "hawks" or "doves" on inflation. And even more – to some MPC members becoming media "stars"!

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England, whose England

It may not come naturally, but devolution is going to force the English to come to terms with a nebulous sense of identity

The first English-Scottish war of the new age of devolutionary politics in the United Kingdom has already opened. No shots have been fired, nor are they likely; but real soldiers are involved.

At issue is the question of where the headquarters for a planned northern military district will be located. Both Edinburgh and York, respective headquarters of the current Scottish and northern English districts, are vying for the role.

No decision has yet been taken, but Hugh Bayley, MP for York, is lobbying so hard the question has stimulated a debate in the House of Commons. This is the kind of thing that always animates MPs. But there is a new edge to discussion now: when his constituents write to him, Mr Bayley says, they use arguments like – "why should the government put the district headquarters in Scotland if it's going independent?" Which leads Mr Bayley to observe that, after all, the First World War showed that generals should not be 300 miles from their troops, in another country.

John Lloyd on Britain

It will be in ways like this that the English will be roused to a sense of their own nationalism.

Over the past decades they have witnessed the Scots, and to lesser or different degrees, the Welsh and Northern Irish, aggressively pursue their interests. They have been made aware, because of the airing of the debate, that the Scots are over-represented in parliament, that all three of the smaller parts of the UK are disproportionately subsidised and that Scots accents dominate government.

Nationalism is usually stimulated by enmity. Irish nationalism's flame of hatred for the English has been kept alive for centuries, devotedly stoked; Scotland's colder dislike, never so personalised, has now taken a more overt form; it has a pale imitation in Wales. England, as the historian Linda Colley notes, in the past took much of its national feeling from contempt for the French – a rivalry which, together with the Protestant religion, it used as the glue with which to stick together the component parts of the United Kingdom. "Imagining the French as their vile opposites," writes Ms Colley in her book, *Britons*, "became a way for Britons – particularly the poorer and less privileged – to contrive for themselves a converse and flattering identity".

The challenging of the construct called Britain, is above all, an English problem. Some – such as John O'Sullivan, a former advisor to Margaret Thatcher and now a New York-based writer – believe that "Britain" can survive the loss of Scotland. "I don't see why it should lead us to lose what has been created and lasted for centuries. With Wales and Northern Ireland we still have Britain; indeed, I don't know what the English would be if they were not British."

But Mr O'Sullivan's uncertainty as to a separate English identity is precisely the point. The "Celtic" parts of the UK have greater or lesser degrees of identity, a national myth (or, especially in the case of Ulster, competing myths). England, 80 per cent of the whole, emerges onto the stage of national debate shorn of any such easy identity.

It faces all sorts of problems. For example: how is it to be governed? As one vast unit in an absurdly lopsided federation? Or split into regions whose dimensions no one can agree upon?

"All previous efforts at regional government have foundered on the question of their boundaries," says Sir John Harman, leader of the Kirklees Metropolitan Council in West Yorkshire. "Now, the move to regionalism is unstoppable. For how long will England be satisfied with local government or even with regional development agencies when there is a parliament in Scotland and assemblies in Wales and Northern Ireland? This equilibrium is wholly unstable."

The government minister charged with satisfying England seems to agree, while convinced that this does not much matter at this stage. For Richard Caborn, a cheerful and energetic former engineering craftsman from Sheffield, the priority is economic. In his new office in Victoria, he brandishes a table showing that per capita Gross Domestic Product has slipped by three to four per cent in relation to the European Union average in every English region over the last three years. "Look," he says. "This is what it's about! It's about dynamism!"

He cites the vision nursed by Professor Sir Alec Broers, Vice Chancellor of Cambridge University, who dreams of a "silicon triangle" between Cambridge, where the brains are, Ipswich, site of the big British Telecom laboratory, and Norwich. "He told me – 'Bill Gates comes over to Cambridge, puts money in – and takes out the research for use in the US. We need to keep it here.' Once you get regional dynamism going, you can do that."

Mr Caborn nonetheless admits that regions don't have much popular support, and is setting up regional development agencies with boards chaired by senior business figures to try and counter that. The agencies – "which address the economic deficit" – will be counterbalanced by regional chambers "which begin to address the democratic deficit". The chambers will be appointed by local councils and their regional partners, but at some point the regional electorate will be asked, probably through a referendum, if they would like to vote for them. If they do, they will have an assembly with as yet unspecified powers, but certainly not able to raise tax or pass primary legislation.

The problem with English regionalism is that, because the popular response to it is so weak – except, perhaps, in Yorkshire, and the North-east and Cornwall – it is centrally driven, and the centre is unlikely to grant enough powers for the economic dynamism (let alone the democratic legitimacy) which Mr Caborn wants.

Michael Ancram, about to become chairman of the Conservative Party and formerly the constitutional spokesman, says: "On regional assemblies, I find my mailbag contains no wish for them, but people saying – why bother? You would be creating something completely artificial. I'm a Wiltshire MP – I'd be in the south-west – but the people in my constituency don't think of themselves as 'belonging' to the south-west."

The critique of artificiality, however, begs rather than closes the question. Artificiality now cannot be avoided. Mr Ancram himself observes: "We [Conservatives] have been driven off our evolutionary approach to the constitution by the way the government are doing this." With evolution (which had been a bipartisan approach) gone, the constitution is set for change in which one reform triggers another, more radical one.

The constitution is being re-branded: it cannot be any other way. In the course of the exercise, much that has been marketed as British – or English – will either disappear or pass to the museum.

"An Englishman", wrote a correspondent to The Times in 1887, when Gladstone was shaking up the then constitution, "has but one patriotism, because England and Scotland are to him practically the same thing". It seems inconceivable that this sentiment can last into the next millennium.

COMMENT & ANALYSIS

FINANCIAL TIMES

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The Fed rides in to the rescue

If the US economy were insulated from the financial turmoil in the rest of the world, the case for cutting official interest rates yesterday would have been weak.

The domestic economy, backed by a rise in consumer credit and mortgage lending, is still expanding briskly, even if the prospects are now for slower growth next year. The money supply has been expanding. Inflation, it is true, remains subdued. But despite a strong dollar and the collapse of world commodity prices, US finished goods prices are on a rising trend. If that were the whole story, the Federal Reserve's open market committee would have left its interest rate unchanged at 5.5 per cent, instead of cutting it by a quarter point.

Nor does the 16 per cent fall in US equity prices since the July peak appear, by itself, a reason for official concern. Stocks are still very highly valued in historic terms, and it is not the job of central banks to protect speculative gains. The Dow Jones Industrial Average is only back to its level at the end of January and still 38 per cent higher than it was two years ago.

But that figure also helps to define the risk which the Fed is now facing. A collapse of equity prices by 40 per cent – added to the general anxieties in international capital markets - could conceivably cause a serious deflationary spiral.

The risk of a 1930s style calamity is slight, especially if yesterday's move signals a readiness by the Fed and other central banks to take pre-emptive action. But the near collapse of the US hedge fund, Long-Term Capital Management, last week clearly convinced the Fed that it cannot be ignored.

Should Europe follow suit? Despite much talk of co-ordinated action, especially in Britain, France and now in Germany, the likelihood of a prompt move by the German Bundesbank is slight. Its official rate of 3.3 per cent is probably lower than it would have been absent the Asian crisis, and it will be unwilling to make the convergence of European interest rates ahead of monetary union any more difficult. As things are, the fall in Italian and Spanish rates to German levels will effectively cut European rates by about ½ percentage point by January.

A small cut in German rates is unlikely to do much for growth or financial stability. The task of containing the world financial crisis must rest largely with the Fed, helped by further monetary expansion in Japan.

Further easing in the US, if required, would help to bail out many imprudent investors. That is regrettable, and a problem which must be addressed in future. But as Alan Greenspan, the Fed chairman, said recently, the present crisis requires ad hoc remedies. These, unfortunately, are what the Fed is now being forced to apply.

Chinese whispers

Chinese companies were yesterday given just two days to repatriate billions of dollars worth of foreign currencies which they have been stashing abroad illegally. This was the latest, and most dramatic, in a series of recent statements and policy changes which appear to hint that China's no-devaluation policy is weakening.

Capital flight from China has been prompted by growing worries about renminbi devaluation, and has been achieved by circumventing China's regime of capital controls by such devious methods as forging trade documents.

Whether or not the order to repatriate funds will make much difference is arguable. What was more significant about yesterday's move was that it appeared to confirm a softening in Beijing's exchange rate stance. Previously, officials had insisted that the renminbi rate would be maintained. Yesterday, the line was that no currency could be promised to be safe.

Market pressures played only a limited part in this apparent shift in policy. Although there has been substantial capital flight, China's capital controls still make speculation against the renminbi all but impossible. More relevant are worries about how the emerging markets crisis is affecting China's economy. Exports fell by 2.4 per cent year-on-year in August, and most economists now believe that the official output growth target of 8 per cent cannot be met.

But the potential cost of a devaluation still far outweighs the doubtful benefits.

The most compelling argument for China to hold firm is that a renminbi devaluation could set off another round of emerging-market crises. Apart from weakening the world economy, this would quickly reverse China's competitiveness gains. It would also destroy the stock of political goodwill China has garnered from its strong stance.

More surprisingly, a devaluation may not be justified on domestic economic grounds. Certainly, it would improve China's export potential. But even now, China is still very competitive, with a trade surplus of $31bn in the first eight months of this year alone. A devaluation would make imports more expensive, important in a country where 50 per cent of exports are made from processing imported goods. And the effect on the financial system could be severe.

More important for China is to find a way of boosting domestic demand and escaping deflation. A major infrastructure spending programme is being launched; if this does not do the trick, Beijing will need to show the flexibility to come up with other policy responses. Devaluation, though, should not be one of them.

Blair's Blackpool

There is much to be said for the air of studied sobriety permeating the UK Labour party's annual conference in Blackpool. With tougher times ahead, Tony Blair, the prime minister, has wisely concluded that substance now counts for more than style. The conference has been more mature for being less flashy. The occasional platform tantrums of some trade union leaders have stirred barely a ripple.

The prime minister's speech amplified the central message of the week. New Labour's embrace of prudent economics and market solutions is irreversible. The pursuit of social justice can no longer be seen as inimical to an enterprise economy. Ideals are fine, ideology is out. So, thankfully, is the glib rhetoric about a young country and an age of achievement which previously punctuated Mr Blair's oratory.

The skill of this latest speech lay in the apparent ease with which it threw a bridge between the pragmatic politics of government and Labour's constant hankering for the moral high ground. In his words, the party had lost the battle of ideas in the 1980s but it was now winning the battle of values. This is a brand of inclusive politics which leaves William Hague's Conservatives struggling to seem relevant.

But if the party faithful were ready to embrace the politics of realism for an afternoon, Mr Blair's purpose was also to anticipate future unrest. The price of the government's injection of new funds into health, education and law and order, he warned, would be a much more rigorous approach to standards in those services. Public sector unions can no longer be the guarantors of mediocrity. And a start will be made on welfare reform by tightening eligibility for all new benefit claimants, including lone parents and the disabled. This amid the chill winds of an economic downturn.

Yet for all Mr Blair's efforts to educate his party, he said little of substance on two issues which will dominate the political scene during the next year.

Within a matter of weeks the government must respond to the impending report of the Jenkins Commission on electoral reform for the House of Commons. It will be one of the most important decisions of the present parliament. But Mr Blair remains unsettlingly opaque.

Similarly with Europe. Despite its pro-European tone, the government has yet to take a lead in preparing for sterling's eventual entry into the single currency. Business is asked to invest against the possibility, while the government sits firmly on the sidelines. Mr Blair yesterday spoke of the coming challenges for the nation. These are challenges for his government.

A gruesome twosome

Ahead of next week's IMF/World Bank meeting, Robert Chote looks at reform of the much-criticised institutions

The world faces two tasks in dealing with the strains on the global economy. The first is to get the mix of macro-economic policies in the biggest economies right, hence yesterday's interest rate cut in the US (see editorial). The second is to get the institutional framework right, which means, in particular, examining the two most important bodies dealing with emerging markets and international financial flows: the International Monetary Fund and the World Bank.

Dubbed the Bretton Woods twins after the New Hampshire resort where they were founded in 1944, the IMF and World Bank have spent the past half-century developing a relationship of enduring affection and frequent irritation that will be familiar to siblings everywhere.

Created with very different objectives, the Bank and Fund had little operational contact for the first 30 years of their existence. But changes in the world economy have brought their activities much closer, increasing the scope for friction. The financial crises in Asia and Russia are only the latest such changes, prompting fresh calls for a re-examination of their roles. These will be high on the agenda at the institutions' annual meetings in Washington next week.

Indeed as the global financial crisis has widened and deepened there have been calls in some quarters for a "new Bretton Woods" to rebuild the international monetary system. This would probably encompass other bodies, including the Organisation for Economic Co-operation and Development in Paris (grouping the world's 29 biggest industrialised countries) and the Bank for International Settlements, the central bankers' central bank. Some have even argued that a world financial authority should be set up.

There are certainly big questions to be answered. Can the world afford a properly financed lender of last resort? How best can the strength of domestic financial systems be assured internationally? How can the private sector be made to play its part in crisis resolution? Should there be new restrictions on international capital movements?

Wise heads are wary of raising expectations before such questions have been answered in policymakers' own minds. After all, as John Maynard Keynes said of the original Bretton Woods conference: "It is as though one had to accomplish all the preliminary work of many interdepartmental and cabinet committees . . . all carried on in committees and commissions numbering anything up to 200 people in rooms with bad acoustics, shouting through microphones, with many of those present having an imperfect knowledge of English, each wanting to get something on the record which would look well in the press down at home."

Despite that bureaucratic nightmare, Bretton Woods did eventually produce the Bank and Fund. Criticised from the right for bureaucratic wastefulness and from the left for the unthinking application of economic orthodoxy, the two institutions nevertheless remain at the heart of the world financial system, under the respective leaderships of James Wolfensohn and Michel Camdessus.

But the Asian crisis – in which the Fund has been powerless to halt financial collapse and in a structural policies praised by the Bank have been thoroughly discredited – leaves both institutions vulnerable. And their response to criticism has been complacent. To understand why, it is necessary to look at the way they have responded to previous criticisms of the way they interacted, and consider whether things may be different now.

The Bank began its life lending primarily to finance postwar reconstruction in industrial countries and infrastructure projects in developing ones. The Fund began life as a central part of the fixed exchange rate regime established at Bretton Woods, supporting countries with temporary balance of payments difficulties to forestall damaging trade restrictions. The Bank's lending was long-term and structural; the Fund's short-term and macro-economic.

Their roles began to converge in the mid-1970s, when competition from commercial banks and the abandonment of fixed exchange rates meant industrialised countries no longer needed to borrow from the Fund. Within a few years both institutions found themselves lending to developing countries caught up in the international debt crisis.

By this point it was clear that macro-economic stabilisation and structural reform of markets and institutions were complementary. But rather than specialising in their own areas of expertise, each institution trespassed on the territory of the other.

The conflict came to a head in 1988 when the Bank announced a $1.25bn loan to Argentina at a time when the Fund was withholding financial support. After an embarrassing public row and instructions from the US and others to get their act together, the Bank and Fund hammered out a peace treaty known as the "concordat".

This split the functions as follows: the Fund got primary responsibility "with respect to surveillance, exchange rate matters, balance of payments, growth-oriented stabilisation policies and instruments". The Bank had primary responsibility for "the composition and appropriateness of development programs and priorities".

The Fund does not have the resources to rescue countries from crises involving huge capital outflows

Both bodies were both allowed "to explore their legitimate concerns" in macroeconomic and structural issues, but urged to "rely as much as possible on analyses and monitoring of the other institution in the areas of primary responsibility of the latter".

Writing in the Bank's official history, Jacques Polak, a former IMF research chief, argues that the concordat returned the relationship between the institutions "to the untidy, but controlled, mixture of co-operation in general and mutual irritation on occasion that characterised the situation in the mid-1980s".

The trouble is that the Asian crisis has begun to wrench this messy but workable compromise apart again. By generating fresh criticism of both bodies, it has prompted calls for a partial merger, the creation of joint departments and even the abolition of one or other institution. In response the Fund and Bank have produced a revised concordat which will be presented to finance and development ministers next week.

One problem thrown up by events in Asia is that the Fund does not have the resources to rescue countries from crises involving huge capital outflows. It has been seeking an increase in its capital, but the US, the Fund's largest shareholder, is still struggling to have its share approved by Congress.

As a stop-gap measure, the Bank has found itself called upon to lend $8.4bn to help pay for short-term liquidity support that falls outside its traditional mandate. The calls come from the IMF and leading industrial countries, notably the US.

In an attempt to reduce their demands, the Bank has warned that it might need to make a politically contentious capital increase of its own if it is forced to continue such lending. Having expensively repositioned itself as a long-term development institution, the Bank will not want to get embroiled in short-term crisis management. In practice, though, it will be targeted for this as long as it is seen to have spare cash.

At the operational level, meanwhile, the Asian crisis has brought an old problem into sharper focus.

The convergence of the Bank and Fund's activities over the past 25 years has reflected the growing recognition that restoring growth requires macroeconomic stabilisation and structural reform in tandem. The Fund has always prided itself on being quick to set up stabilisation programmes. Now, it is arguing that in view of the contribution structural problems have made to the Asian crises, structural solutions (which are the Bank's speciality) ought to be applied with equal speed.

But while the Fund's hierarchical structure and authoritarian culture lend themselves to rapid decisions, the Bank's byzantine bureaucracy and fondness for thoughtful reflection do not. This was damagingly apparent in financial sector reform, when the Bank was often slow to respond and the Fund in turn acted too hastily. (The institutions have since set up a liaison committee.)

But something more radical may be needed. Tony Blair, the UK prime minister, recently proposed the idea of creating a joint department spanning both institutions. The idea has come to nothing, but transferring the Bank's special financial operations unit to the Fund might well be desirable. Greater clarity is also required in assessing the social impact of stabilisation, which in turn affects its ultimate durability.

This is where the concordat Mark II should come in. It states that it is important "to clarify, and where possible, sharpen the division of primary responsibilities between the two institutions".

But in all the areas on which it focuses – such as surveillance of national policies, crisis management, strengthening financial systems, and lending to low income countries – the document shies away from any painful reallocation of responsibility. The institutions promise little more than to talk to each other more, while the Fund explicitly retains the right to barge in and impose its own structural reforms whenever it thinks the Bank is dithering in a crisis.

The tone of the new concordat is reminiscent of the various reports on Bank and Fund co-operation prepared for the boards of the institutions in the early 1980s. As Mr Polak points out, they invariably concluded that differences of view were being resolved successfully: "In broad terms and in elegant prose the message delivered was that co-operation was essential, that it was working better and better, and that there was a need for further improvement."

With the institutions under greater scrutiny today than ever before, the shareholders – notably the largest industrial countries – may now be looking for something rather more substantial than is being offered so far.

OBSERVER

Blade runner wields the axe

It has been a rollercoaster year for Al Zeien. In June the Gillette boss put on a shaving show at New York Stock Exchange when the new $750m Mach 3 razor hit the shops. This week, with profits and the share price suffering, he took a sharp blade to the company, slicing 4,700 workers and 14 factories.

But the 69-year-old Zeien – who has had three contract extensions since he passed the official retirement age of 65 – is showing no sign of going early and heir-apparent Michael Hawley, president since 1995, looks like being kept waiting a while longer.

When Zeien took the helm of Gillette in 1991, he was already old by the standards of the traditionally macho razor group. Yet there are still no signs that he is tiring of his job. Insiders say he is full of energy, despite his age, and is invigorated by challenging times.

He might find the next few months particularly exciting. Troubles in emerging countries, some of Gillette's main markets, are bound to present him with plenty of close shaves.

He even took time out on Monday to reorganise the company and shuffle top management, giving a big leg up to Edward DeGraan, one of the five terminals in the Duracell business. Maybe Hawley's position as crown prince is looking less secure.

Paired off

German politicians are seeking safety in numbers as they adjust to life out of the giant shadow of Helmut Kohl.

Chancellor-elect Gerhard Schröder and Social Democratic Party leader Oskar Lafontaine have been inseparable since Sunday's election triumph. And wherever there is a camera, Wolfgang Schäuble, the number one seed to follow Kohl as leader of the Christian Democratic Union, and Volker Rühe, the outgoing CDU defence minister, are pictured side by side.

The Schäuble-Rühe double act is meant to reassure the faithful that the CDU will not fall prey to internecine strife after its leader of 25 years quits in November. The two men, both 56, are the only CDU heavyweights in Bonn to emerge from the Kohl years with their status enhanced. But their buddiness may also be contrived to cap the ambitions of the CDU's bright 40-somethings in the regions, who are demanding a "generational" change in the party.

Christian Wulff of Lower Saxony, Peter Müller in the Saar and Roland Koch in Hesse have all laid claim to more power in the CDU. This would be fine if they had been able to win elections, but all three are opposition leaders. In any case, choosing youth for youth's sake does not necessarily pay dividends. Ask the British Conservative party.

Restad in peace

Can Gudmund Restad keep quiet until Monday? That's when the Norwegian finance minister is due to present his budget to parliament. The only trouble is, every spit and cough was published yesterday in the newspaper Dageblat.

Of course, there's now a gag on civil servants talking about the budget, but it's pretty hard on a politician to keep stumm when the opposition is laying into his plans. At the moment, all Restad will say is that the police are investigating the leak. Looks like his critics have five days to make hay.

Boos boost

Mild-mannered Russian MP Georgy Boos seems an odd choice to head the country's tax service. Few Duma colleagues can imagine him stomping around persuading some of Russia's business types, for whom tax-dodging has evolved into a national sport, to render unto Moscow what is Moscow's.

Boos was yesterday keeping a low profile, saying he would have to understand all Russia's tax problems before he made any announcements. That could keep him silent for months.

But Boos has shown a deft political touch. As President Boris Yeltsin tried to get Victor Chernomyrdin approved as prime minister, Boos – a member of Chernomyrdin's Our Home is Russia party – did not vote for his leader.

Rumour has it Boos has thrown in his lot with Yuri Luzhkov, Moscow's populist mayor and leading presidential candidate. Sorting out tax collection is, after all, a task for the longer term.

Primary culture

Time was when the US presidential primaries – like White House sex scandals – just went on and on. Starting in New Hampshire in March, the caravan trundled along at a leisurely pace until June.

The trouble with this arrangement was that states at the end of the queue sometimes didn't vote until after the whole thing was settled. Californians were particularly disgruntled when Uncle Sam's most populous state trailed over the finishing line in June.

So Governor Pete Wilson has just signed a bill moving the presidential primary to March 7, 2000 and nine other states are thinking about earlier dates. That could be bad news for candidates trying to cover all the bases, unless they work out how to be in several places at once.

The Financial Times

100 years ago

Blind Pools in High Holborn
Business people are settling down in real earnest for the period of bustle that succeeds the holiday season, and we find that the preparations for a renewal of speculative activity are not confined to the City, but are also manifesting themselves just outside its borders, where a certain class of "stock and share dealers" find it more convenient to conduct their affairs than in the neighbourhood of the Bank. In November last the City Solicitor ran to earth a group of the most unscrupulous swindlers that ever traded on the folly of mankind and the enterprising gentlemen were severely punished for their pains.

50 years ago

Australia's Rabbit Pest
Melbourne, Sept. 29. A warning of the serious effects to Australia's pastoral industries through the depredations of rabbits has been given by Sir Clive Baillieu as the most disturbing impression gained since his return to this country. He pointed out that by wolfing the most succulent grass which should be going into wool and meat, the rabbit was nibbling at the national income and Australia's standard of living.

FINANCIAL TIMES

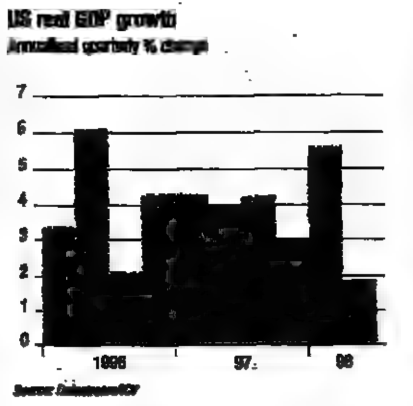
WEDNESDAY SEPTEMBER 30 1998

THE LEX COLUMN

Fed but not full

The markets wanted action and they got it. But investors should not kid themselves that a mere ¼ per cent reduction in US interest rates will solve the global financial crisis.

Granted, it will help a bit. The mere fact that the Federal Reserve is doing something to prevent further contagion should boost investors' confidence. Lower rates will make dollar-denominated assets less attractive, perhaps helping slow down global capital's flight to safety. And by lowering banks' cost of funds, the Fed is hoping to prevent a credit crunch spreading to the core of the US financial system – the dangers of which were so aptly illustrated by the collapse of Long-Term Capital Management.



But a US rate cut will not clear up Japan's banking problem or crack Brazil's fiscal deficit. Nor will it do much to reduce risk premia and punitive interest rates across emerging markets. Unless followed by other initiatives, such as a financing package for Latin America, the boost of confidence engendered by yesterday's move could dissipate. Meanwhile, it risks storing up trouble domestically. With third-quarter gross domestic product expected to increase by a still-healthy 2¾ per cent, tight labour markets and rapid monetary growth, lower rates now could trigger inflation.

For bonds the cut is positive, though further cuts would be needed for yields to go much lower. Equities, however, still face an unappetising mix of higher risk and lower profit growth.

China

China still claims to be operating an "open door" policy, but the hinges are squeaking. The abruptness of the deadline for foreign currency repatriation suggests some desperation in the government's attempt to stem capital flight. A first-half trade surplus of more than $20bn and a similar amount of foreign investment failed to bolster the country's foreign exchange reserves. Since July, the worsening Asian crisis and a speculative attack on the Hong Kong dollar have probably accelerated the outflow. This may not be as harsh as Malaysia's imposition of capital controls, but China is a bigger economy. Investors in emerging markets everywhere are likely to shiver.

While Beijing could claim it is simply enforcing existing rules, the threat of punishment and new restrictions on foreign currency transactions smack of moving the goalposts. It not only makes doing business in China more tricky than ever, but also raises the fear that it will become increasingly difficult to take earnings out. Some foreign companies have already found they need permission to repatriate more than $10,000.

In the short run, Beijing's action may seem like a clever way of protecting the currency while also pumping up the economy through lower interest rates. The worry is that this will be hard to sustain in the longer run. And if foreigners are reluctant to provide new funds and locals find a way of evading the new rules, the capital flight may resume.

UK IPOs

Investors in UK IPOs have had a sorry year. Of seven new London listings (excluding demergers) worth over £200m this year, five are now trading below their issue price. But, more depressingly, as a group, they have underperformed the market by an unweighted average of nearly 15 per cent.

This should not be that surprising. After all, many were quite simply overpriced during the last months of the bull market. Coca-Cola Beverages, whose shares fell 13 per cent yesterday on a bleak profits outlook, Computacenter and Thomson Travel are cases in point.

In market turmoil investors are more likely to sell "unseasoned" stock than tried and trusted blue chips. Relatively untested managements, especially in industries yet to suffer a recession, require investors to take much on trust. That the froth has been blown off clothing retailers New Look and Monsoon reflects investors' reaction against this need for trust, which the sector's woes amplify.

That said, the strong outperformance of microchip designer Arm Holdings and ITNet, a services company, shows that real growth stories will not go begging for capital for long, whatever the weather. With the odds of bagging shares in the "next Microsoft" thin already, splashing out on IPOs towards the end of a bull market is hardly the best way to start.

Russia

Filling Moscow's political vacuum is a thankless task. Yevgeny Primakov's failure to form a settled government is threatening his own position and that of Boris Yeltsin. Following the decision of Alexander Shokhin to quit as deputy prime minister last week, Boris Fyodorov, the once-great hope for Russian tax reform, has now been sacked. They seemed ineffective enough. But without them, the prospects for Russia putting its finances in order look as bleak as at any time since the latest crisis began.

Against all International Monetary Fund advice, money-printing has started and inflation is rampant. And as a consequence of the country's frozen payment system, government revenues are tumbling faster than ever, making a formal default on foreign debt likely. In all the confusion, it can be no surprise economic policy is so contradictory. In rapid succession, the government has indicated it will pursue greater state control of the economy, macro-economic reform along IMF lines, and now a synthesis of the two involving financing the government's deficit through a "controlled emission" of money.

Few politicians wish to be associated with the pain hyper-inflation is likely to inflict in the coming months. But until there is a political consensus behind sensible reform, there is no point in the IMF's associating itself with it either. The little cash it has left, it should lend to more bankable propositions.

Battered Anwar faces court to deny corruption charges

Sacked Malaysian deputy PM claims he was beaten by police

By Sheila McNulty in Kuala Lumpur

Anwar Ibrahim, the sacked deputy prime minister of Malaysia, appeared in court yesterday, bruised and with a black eye, to plead not guilty to nine counts of corruption and illegal sexual acts.

It was Mr Anwar's first public appearance since he was detained on September 20 under the country's strict Internal Security Act, which permits detention without trial.

Mr Anwar's left eye was swollen, and he had faint bruises on his arm and neck. One of his seven lawyers said police had beaten the former deputy premier while he was handcuffed and blindfolded, until his nose bled and he passed out.

"It was a clear message to behave," the lawyer said.

Police with rifles surrounded the courthouse and sealed off surrounding streets to keep away the tens of thousands of Malaysians protesting against Mr Anwar's detention. More than 100 supporters have been arrested by police armed with tear gas and water cannons in protests which followed Mr Anwar's arrest.

Mr Anwar's lawyers said he had pleaded for a doctor because he could not see with his left eye, walk normally or use one of his arms, but it was not until the fifth day of his detention that a police doctor saw him. He lodged a police report and prosecutors said an investigation was under way.

Inside the courtroom, Mr Anwar motioned to reporters that he had been punched in the head and fed little. He answered questions by reporters before police intervened.

Mr Anwar said he was being confined alone without light, but he pledged to endure this treatment "as long as it takes for *reformasi* [reform]. I'm more convinced of the need to change or reform this country". To those who have rallied behind him, Mr Anwar said: "Keep up the fight."

His wife, Wan Azizah Wan Ismail, who took up his call for reform until the authorities restricted her from holding rallies, proudly showed Mr Anwar international magazines featuring them both.

Judge Hasnah Mohamad Hashim granted a request by Mr Anwar's lawyers that he should be examined by a doctor chosen by the family. But she transferred the case to the High Court and left it up to the higher authority to decide when to hold the next hearing and whether to grant bail. Lawyers said it was unlikely Mr Anwar would be released on bail.

Mahathir Mohamad, the prime minister, sacked Mr Anwar on September 2 for having "low morals". As Mr Anwar was in court yesterday, Dr Mahathir was explaining his actions to parliament: "Anwar's wish was for me to step down so that he would get away without being tried," he said.

But Lim Kit Siang, parliamentary opposition leader, said in an interview: "If a former deputy prime minister can be assaulted in this fashion in police custody, Malaysians must wonder if they can be safe."

Mr Anwar says the allegations are part of a high-level conspiracy to punish him for becoming a threat to Dr Mahathir's 17-year rule.

Derivatives soar as companies seek means of controlling risks

By Christopher Adams and Richard Adams

Global financial markets have witnessed explosive growth in the use of financial derivatives during the last three years, according to the triennial survey of foreign exchange activity conducted for the Bank for International Settlements (BIS).

The daily volume of trade in over-the-counter and currency and interest rate derivatives in London, the world's leading foreign exchange trading centre, has more than doubled from $74bn to $171bn.

London consolidated its position over the last three years, with average daily trading volumes outstripping those of New York and Tokyo combined, and turnover rising from a daily $464bn to $637bn – an increase of 37 per cent over the three years. The BIS estimated daily global trading averaged $1,260bn in April 1995.

However, London experienced a slower rate of growth than in the previous two surveys conducted by the Bank of England, which also surveyed financial institutions in April. This was countered by the growth in derivatives.

This growth reflected the popularity of derivatives among companies looking for more sophisticated, individually tailored methods of controlling risk, said John Footman, deputy director of the Bank's financial stability section.

The daily value of exchange-traded interest rate derivatives increased from $177.2bn to $345.5bn in the same period, said the London International Financial Futures and Options Exchange (Liffe).

The only leading financial centre that bettered London in growth was New York, where foreign exchange volumes rose 43 per cent. Tokyo suffered a slide of 8 per cent. Credit lines to Japanese banks have been reduced because of declining confidence in the financial sector.

Paul Chertkow, global foreign exchange strategist for the Bank of Tokyo-Mitsubishi, said some Japanese banks had suffered from downgraded credit ratings, making them less attractive to counterparties wanting A or AA credit ratings.

Trading against the dollar in the currencies that are to participate in European monetary union increased as a proportion of total volume from about 38 to 43 per cent. Cross-trading between the same European currencies declined.

For the first time, the Bank of England's survey included details on trading in emerging market currencies, where daily turnover was $12.5bn.

The Bank of England said overall turnover was growing at a sustainable pace. "London continues to be a place where people want to do business," said Clifford Smout, head of foreign exchange.

Challenge of Euro, Page 4

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Yuri Luzhkov, mayor of Moscow, visiting the seaside resort of Blackpool, northern England, yesterday for the ruling British Labour party's annual conference. Conference report, Page 10

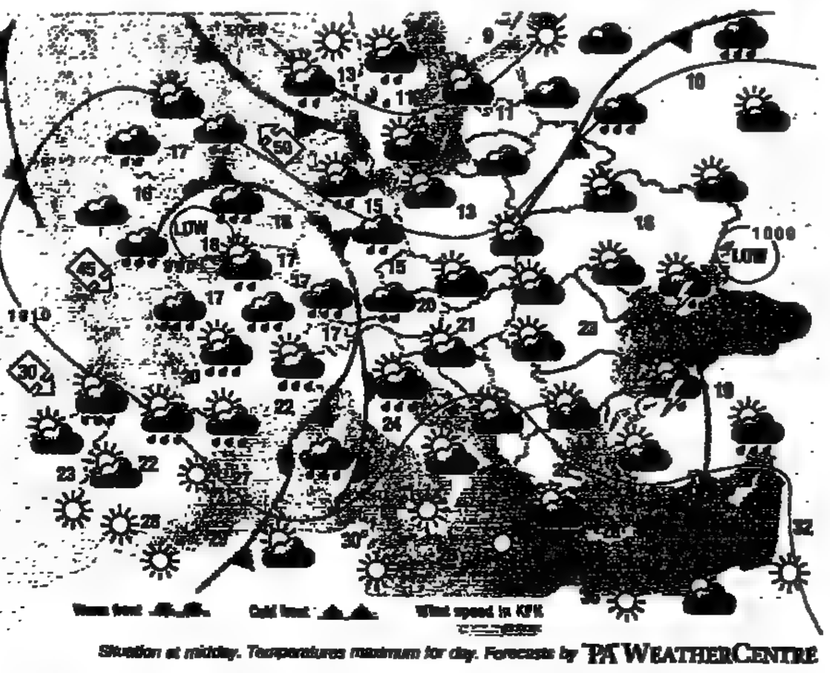
FT WEATHER GUIDE

Europe today

After a cold start, much of Scandinavia will be dry with sunshine. There will be isolated showers in the south. Western Russia will have heavy rain. North-west Europe will be unsettled. Northern France, the Low Countries and Germany will have prolonged spells of rain. Much of the Mediterranean will be sunny, but showers in southern France, the Alps and the Pyrenees will spread into Italy.

Five-day forecast

High pressure over Scandinavia will gradually push south-west across north-west Europe where it will turn much cooler by the weekend. A large area of low pressure will bring showers to much of central Europe. The western and eastern Mediterranean will remain dry, but Italy, the Balkans and Greece will have heavy rain.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	40
Accra	Cloudy	30
Algiers	Fair	29
Amsterdam	Rain	16
Athens	Sun	27
Atlanta	Thunder	30
B. Aires	Fair	19
B.ham	Shower	16
Bangkok	Shower	33
Barcelona	Shower	26
Beijing	Fair	27
Belfast	Rain	17
Belgrade	Fair	23
Berlin	Rain	15
Bermuda	Shower	28
Bogota	Shower	19
Bombay	Shower	34
Brussels	Rain	17
Budapest	Shower	21
C.hagen	Shower	14
Cairo	Sun	34
Caracas	Cloudy	33
Cardiff	Shower	16
Casablanca	Fair	24
Chicago	Thunder	28
Cologne	Shower	18
Dakar	Cloudy	31
Dallas	Fair	30
Delhi	Sun	[illegible]
Dubai	Sun	41
Dublin	Rain	16
Dubrovnik	Cloudy	21
Edinburgh	Rain	14
Faro	Fair	24
Frankfurt	Shower	17
Geneva	Shower	17
Gibraltar	Sun	27
Glasgow	Cloudy	17
Hamburg	Shower	16
Helsinki	Fair	9
Hong Kong	Fair	32
Honolulu	Fair	31
Istanbul	Fair	25
Jakarta	Cloudy	32
Jersey	Fair	16
Johannesburg	Fair	23
Karachi	Fair	34
Kuwait	Sun	42
L. Angeles	[illegible]	[illegible]
Las Palmas	Fair	28
Lima	Cloudy	20
Lisbon	Fair	22
London	Shower	18
Lux.bourg	Rain	15
Lyon	Shower	19
Madeira	Fair	26
Madrid	Fair	22
Majorca	Shower	27
Malta	Fair	27
Manchester	Rain	16
Manila	Thunder	31
Melbourne	Shower	25
Mexico City	Cloudy	26
Miami	Fair	32
Milan	Rain	19
Montreal	Shower	21
Moscow	Rain	10
Munich	Shower	16
Nairobi	Cloudy	27
Naples	Shower	24
Nassau	Shower	32
New York	Fair	26
Nice	Shower	22
Nicosia	Sun	30
Oslo	Shower	13
Paris	Rain	17
Perth	Cloudy	17
Prague	Shower	16
Rangoon	Cloudy	28
Reykjavik	Fair	7
Rio	Cloudy	[illegible]
Rome	Shower	24
S. Frsco	Fair	25
Seoul	Rain	22
Singapore	Shower	32
Stockholm	Fair	11
Strasbourg	Shower	15
Sydney	Fair	23
Tangier	Shower	24
Tel Aviv	Sun	33
Tokyo	Rain	24
Toronto	Fair	24
Vancouver	Shower	19
Venice	Shower	21
Vienna	Fair	20
Warsaw	Fair	13
Washington	Fair	28
Wellington	Shower	16
Winnipeg	Sun	10
Zurich	Shower	16

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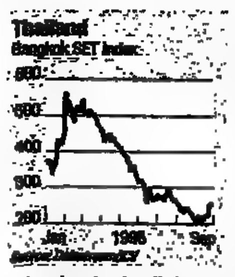
FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 · WEDNESDAY SEPTEMBER 30 1998 · Week 40

INSIDE

Speculation rages over PLDT
Manila's financial community has been gripped by speculation of a wrangle for control of Philippine Long Distance Telecom, the country's dominant telecommunications provider. Brokers say there is a significant prospect that one of the Philippines' prime corporate assets could be taken over by an international company or slip back into the control of former cronies of the late president Ferdinand Marcos. Page 16

Bangkok rally boosts confidence



The Thai stock market's benchmark SET index closed down 0.18 at 255.35, having risen 14.5 per cent in the previous four sessions and giving some hope that the market had touched bottom. A dramatic fall in interest rates and a stable currency are lifting confidence, while deposit rates in single digits have encouraged local investors back into the stock market. Some foreigners have also been nibbling, but almost by default. Malaysia and Indonesia are off limits while Singapore and the Philippines are thought still to have far to fall. Page 38

Farmers suffer in Bangladesh floods
As the flood waters recede in Bangladesh, the extent of the damage to its economy is becoming apparent. Farmers have been worst hit, with much of the rice crop wiped out. Jute has also suffered, and there will be losses in garments exports. The Asian Development Bank says Bangladesh will need two to three years to rebuild its infrastructure. Page 28

Ecclestone's eurobond benchmark
The $2bn eurobond issue to be raised by Bernie Ecclestone's Formula One company has prompted speculation that Mr Ecclestone is to invest in the breakaway European football super league, or buy a football club. One thing is certain. If the company raises $2bn it will create a highly liquid benchmark issue. Page 26

Brazil 'crucial to commodity prices'
The key factor in the fortunes of world commodity prices is the economic future of Brazil, according to a report from GNI, the international commodities broker. Brazil is the biggest grower of coffee, but also exports substantial amounts of other commodities such as sugar, soyabeans, cocoa, coarse grains, tin, aluminium, gold and tobacco. Page 28

IMF set to disappoint Latin America
Latin American countries seeking a financial rescue plan from this week's IMF and World Bank annual meetings are likely to be disappointed, say IMF officials. At best, the IMF will step in with a credit line for Brazil along with an IMF programme requiring austerity measures to cut the country's enormous deficit. Page 38

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CROSSWORD, Page 26

MARKET STATISTICS

Goldman appoints 160 directors

By Tracy Corrigan in New York

Bank moves to retain staff after pulling public offering

Goldman Sachs, the US investment bank, has appointed 160 new managing directors. They will be eligible for the firm's highly prized partnerships, to be handed out at the end of October.

The move comes as the firm seeks to retain staff who may have been disappointed by its withdrawal on Monday of its initial public offering, because of market conditions.

Goldman was due to abandon 130 years of partnership and turn itself into a publicly traded company by launching an IPO of 10-15 per cent of its stock in late October or November. Initial estimates valued the firm at up to $30bn but the halving of the stock prices of publicly traded rivals in the last two months has drastically cut that valuation.

Goldman has 402 managing directors, of whom 189 are partners. The first non-partner managing directors, known as extended managing directors, were created in 1996, as part of a plan to "broaden and deepen the leadership of the firm as it became more global," an official said.

The firm is expected to appoint at least 40 new partners. New partners stand to be allocated more shares in any IPO as a result of their elevation.

Goldman said it plans to revive the IPO plan when conditions improve. "This organisation is emotionally and intellectually committed to the strategic goals outlined at the time of our decision [to become a public company]," Henry Paulson, co-chairman and chief executive officer of the firm, said on Monday.

The appointment of new managing directors will help ensure that "everyone will keep their eye on the ball," said one market participant.

Competitors said yesterday the withdrawal of the IPO is embarrassing for the firm, and rivals will seek to capitalise on it. Goldman, a leading underwriter of IPOs, arranged one of the few recent successful offerings - for e-Bay, the internet company.

"Competitors will take their shots. I'm sure some bankers will use this as part of their pitch" to potential IPO clients, pointing out that Goldman "wouldn't even take themselves public", said one person at a rival firm.

Goldman executives said they would not advise other financial institutions to launch IPOs in current market conditions but would continue to do deals in other sectors.

The withdrawal of the IPO is further bad news for that market. "Goldman represents a large part of the IPO market as an underwriter. People will take it as a sign of an even more moribund market," said Steve Tuen, director of research at IPO Value Monitor.

Another 35 houses in LTCM bail-out

By William Lewis and Tracy Corrigan in New York

The effort to rescue Long-Term Capital Management, the US hedge fund, has been broadened to include about 35 other financial institutions.

According to people close to the fund, the institutions have agreed to extend liquidity to it through a variety of means, including a $900m syndicated loan.

Others have agreed that they will waive margin calls temporarily.

A 14-strong consortium yesterday took control of the troubled fund. It has agreed to inject $3.6bn of equity to save it from going into liquidation.

The bail-out deal was signed late on Monday night, but only after about 35 financial institutions outside the consortium had been persuaded to extend credit and other liquidity to the fund.

About nine members of the rescue consortium are also members of a 24-strong $900m loan syndicate which was arranged two years ago by Chase Manhattan.

LTCM's attempt to draw down part of the loan facility two weeks ago is said by people close to the fund to have been one of the immediate catalysts for sending it into a liquidity crisis.

A number of syndicate members refused to provide loan facilities to the fund.

The consortium now owns 90 per cent of the fund. Original investors are likely to own two-thirds of the remaining 10 per cent, with the fund's partners holding the remainder. The partners will continue to receive fees from the management company.

While known primarily for its bond arbitrage expertise – attempting to exploit differences between bond prices to make a profit – the fund is also known to have substantial equity arbitrage investments.

Meanwhile, Liechtenstein Global Trust, was set to announce today that the collapse of LTCM could cost it up to $80m. LGT was not considering legal action "for the time being".

Additional reporting by Jane Martinson in London, Richard Waters in New York and Nikki Tait in Chicago.

Letters, Page 12
UBS awaits probe, Page 18

Chairman forced out in Italian bank merger row

By Paul Betts in Milan

Luigi Fausti, chairman of Banca Commerciale Italiana (BCI), was yesterday forced to step down in a fierce boardroom showdown engineered by Mediobanca, the Milan investment bank that is trying to forge a merger between BCI and Banca di Roma.

Mr Fausti, who backed a rival merger proposal with the new Istituto San Paolo di Torino-IMI banking group, was immediately replaced by Luigi Lucchini, a steel entrepreneur and a Mediobanca board member. Mr Lucchini, 79, is also chairman of Compart, the holding company that controls the Montedison agro-industrial group. He is expected to act as chairman until BCI appoints a permanent successor.

Mr Fausti implied that his reluctance to merge with Banca di Roma had cost him his job. "It seems that there is one sole answer: out with Fausti and the deal is done," he told the board.

In an uncharacteristic speech reflecting the intrigue and venom of the saga, Mr Fausti said he had received threats that he would be "run over" if he opposed the Banca di Roma deal. "And there is more to tell, which I won't, because when I think of this twisted story I feel uncomfortable," he said.

Mr Fausti confirmed he had received a letter from Luigi Arcuti, chairman of San Paolo-IMI, saying that Morgan Stanley Dean Witter, the US investment bank, had drafted an outline of a possible integration of the two groups.

Yesterday's events drove BCI shares down L352, 2.4 per cent, to L10,301. This followed a rally in recent days on expectations that the bank would consider merging with San Paolo-IMI to create Italy's largest banking group.

A BCI board member said after yesterday's heated meeting that all eventual merger or partnership options remained open.

Although Mediobanca through its allies maintains a dominant influence on BCI, the bank also has other significant shareholders such as Deutsche Bank, which recently accumulated a 4.5 per cent stake, and Paribas, which has opposed a Banca di Roma merger.

BCI last night reported a 27.4 per cent rise in first half net consolidated group profits to L613bn ($310m) from [illegible] in the first half of last year. Gross operating profits rose 70 per cent to L1,330bn and the bank's total consolidated assets amounted to L223,000bn.

Although Mr Fausti's removal has revived the possibility of merger negotiations with Banca di Roma, BCI's board is now expected to come under pressure to consider the San Paolo-IMI alternative.

Denim blues: French Levi Strauss workers in La Bassée awaiting news after the company announced plant closures. Details, Page 19 AP

Daiwa to scale back overseas operations

By Gillian Tett in Tokyo and George Graham in London

Daiwa Securities, Japan's second largest broker, is to cut at least 800 of its 1,800 overseas staff before April as part of scaling back its international operations. It will leave Nomura Securities as the only Japanese securities house seeking to maintain a global presence in non-Japanese-related international businesses.

Daiwa's cuts show how Japanese brokers are retreating from the international empires built in the 1980s. The global financial turmoil is putting pressure on the international securities industry.

"This is really a terrible time for the brokers," said Robert Garone at Dresdner Kleinwort Benson.

Japanese brokers have also been hurt at home by financial deregulation, which has liberalised commissions and allowed increased competition from non-Japanese firms.

Daiwa will close 12 of its 30 overseas offices, including Zurich, Amsterdam, Bombay and Bangkok, and withdraw from a host of overseas businesses, such as Latin American equity brokerage and US foreign exchange brokerage. Much of its European business will be centred on London, with several continental subsidiaries converted into branches. The group will also slash its non-Japanese fixed income business, shedding 50 front office jobs in London.

The move will leave the broker focusing almost exclusively on Japan-related business, such as sales of international equities into the Japanese retail market and the provision of euro-yen instruments for corporate clients.

Nomura, Japan's largest broker, has not indicated if it plans to cut its overseas operations. However, the broker announced yesterday that a planned joint venture with Industrial Bank of Japan in derivatives products would start next year in London.

Daiwa insisted that its cuts would give its operations more focus and avoid overlap in its planned alliance with Sumitomo Bank. This alliance, which will start next year, entails three joint ventures in asset management and securities.

Before the announcement, Daiwa's shares closed yesterday at Y335, Y14 down on the day and the lowest level for more than a decade.

Daiwa had a consolidated operating loss of Y14bn ($103m) in 1997. It projected a 1998 operating profit of Y25bn, but most analysts regard this as too optimistic.

BARRY RILEY

A fresh start for funds

Fund managers across Euroland stock markets have been given a tough instruction: they must tear up the figures. The introduction of the euro in three months' time could signal the end of performance history, or expressed positively, the start of a new era.

The order was issued in Brussels this week at the congress of the European Federation of Financial Analysts Societies (EFFAS).

The EFFAS Permanent Commission on Performance Measurement has published a short but surprising three-page document, called "Guidelines in Respect of the Impact of Euro Conversion".

The commission has been occupied with developing global investment performance standards in co-operation with America's Association for Investment Management and Research, and the euro question seems to have emerged out of the blue. The problem is what to do about investment performance numbers when there is a discontinuity in the currency.

There are deceptive issues: for a while there may be no significant change. For two or three years it will remain acceptable to quote fund values in local currencies, even though the French franc and German mark, for instance, will by then simply be fixed ratio versions of the euro.

It will seem natural to chain-link the performance figures across the conversion date. To begin with the local currency version can continue. In due course the time series could be retrospectively converted to euros at the fixed exchange rate, generating what might appear to be a valid track record.

But if you add apples and oranges you get a fruit salad. Consider two Euroland funds, one formerly denominated in a soft Club Med currency such as the Italian lira and the other in a harder Northern currency such as the D-mark.

Over several years the lira has depreciated against the mark, and nominal investment returns in Italy have been greater: interest income has been much higher, bond prices have benefited from convergence and equity prices have boomed too, while non-Italian assets will often have appreciated in lire terms.

So the former Italian fund will appear to have outperformed the former German fund when both are converted to euros next January.

Certain forms of synthetic euro back histories have been devised. But there is no satisfactory way of reconstructing historical data in terms of a currency which did not exist at the time. The EFFAS Commission has therefore decided providers and users of performance comparisons will, in many cases, have to accept a discontinuity. Whether it can strictly enforce such a principle on the basis of voluntary guidelines is another matter.

Individual clients, however, can still be given performance numbers chain-linked across the conversion date. For them the historical data remain relevant, although the guidelines say that the original currency must be made clear. There may also be scope for so-called "composites" (groups of comparable portfolios) to be defined when the same pre-conversion currency has been used. League table rankings on this basis will still be valid, even if the absolute investment returns have little meaning.

The introduction of the euro is bound to create a statistical fog, but at least it may be possible to prevent a wave of performance manipulation. In mutual funds, especially, there will be a lot of mergers as managers switch to new Euroland benchmarks. Marketing men will have to be stopped from stringing together different currency histories in order to create table-topping performance.

Will a discontinuity prove damaging? Investment purists argue there is no statistical link between past and future performance. European portfolio managers with good recent track records will not see it like that. But then there are an awful lot of struggling fund managers who will be only too happy to declare the end of history and start with a clean slate in January.

SEMICONDUCTORS JAPANESE GROUP AIMS TO RESTRUCTURE LOSSMAKING MEMORY BUSINESS

Nippon Steel to sell chipmaking division

By Alexandra Harney in Tokyo

Nippon Steel, Japan's largest steelmaker, is selling its semiconductor subsidiary to United Microelectronics, the Taiwan-based wafer foundry group, as part of a drive to restructure its lossmaking memory business.

The all-stock deal is the latest in a series of moves by Japanese chipmakers to reduce their exposure to the global dynamic random access memory (D-Ram) market, which has been rocked by a collapse in prices in the past two years.

Mergers and acquisitions are still rare in Japan, where companies prefer to rely on traditional *keiretsu* relationships to dispose of unprofitable businesses.

Nippon Steel will sell all its shares in Nippon Steel Semiconductor Corporation (NPNX) to UMC for Y50,000 per share, a 68 per cent discount to the share price before the deal was announced. UMC will pay Y1.53bn ($11m) for the shares. Nippon Steel, which owns 56 per cent of NPNX, will then dissolve the company and write off its accumulated debts.

The disposal of the debts will lead to Y120bn in extraordinary losses at the parent level and consolidated losses of Y85bn this year, Nippon Steel said. The group also lifted its earnings forecast as a result of the sale. Earlier this month, it forecast losses of Y15bn-Y25bn, but now anticipates Y10bn-Y20bn in after-tax profits.

The deal marks Nippon Steel's withdrawal from the D-Ram market. NPNX, which manufactures 1-megabyte, 4-megabyte, and 16-megabyte D-Ram chips at one factory in Tateyama, outside Tokyo, has been in the red for the past two years. Last year, the group's net losses totalled Y16.7bn on turnover of only Y17.9bn.

Akira Chihaya, Nippon Steel president, said the group was unable to keep up with the rapid decline in D-Ram prices, and that a shift into foundry operations would have been too costly. "The technological scale of a logic foundry was too large for us to handle, and so we began negotiations with UMC," he said.

Analysts applauded the deal as a positive step for the industry. The big five steelmakers have warned of losses this year. "That a very traditional Japanese company like Nippon Steel is selling one of its businesses is extremely unusual . . . the hope is that if the biggest company in the industry makes this kind of move, the others will follow," said Toru Nagai, steel analyst at Morgan Stanley Dean Witter.

Shares in Nippon Steel jumped 5 per cent to Y200. Trading in NPNX was suspended on the news of the deal.

Gas blast threatens carmakers

By Gwen Robinson in Melbourne

Australia's carmakers may be forced to suspend production after last week's explosion at a gas processing plant in the state of Victoria crippled industry in the region.

The plant, operated by Esso Australia, a unit of Exxon of the US, is part of a gas processing complex which supplied 98 per cent of the state's gas needs through a 50-50 joint venture with Broken Hill Proprietary in their Bass Strait gas and oil operation.

More than half the state's industry and commerce and the majority of homes depend on gas for power. The Victorian Employers' Chamber of Commerce estimated the initial impact of the disruption had cost industry about A$35m (US$20.4m) a day in lost output.

However, industry groups warned yesterday that lost manufacturing revenues would amount to A$100m a day and that job losses would reach 100,000 if the crisis continued into next week. Some business leaders said they were considering legal action to seek compensation for lost revenues.

Esso said yesterday that a 300-strong team was working round the clock to restore gas supplies, but state officials feared the crisis could extend for another two weeks.

Bare necessity: Melbourne residents flock to electrically heated shower after gas was cut off Reuters

Companies which have shut operations or laid off staff include BHP, which suspended steel processing operations in the state; Pacific Dunlop, which closed its three tyre plants; Amcor and Southcorp, the paper and packaging manufacturers; as well as hundreds of smaller manufacturers and service industries including hotels and restaurants.

BHP also declared force majeure on contracts from its Bass Strait operations, saying it would be unable to fulfil oil, gas and liquid petroleum gas commitments. Esso made a similar declaration on Friday.

The plight of the country's four carmakers – Toyota Australia, Mitsubishi Motors Australia, Ford Motor and GM Holden – illustrates how the impact of the disruption has spread across state borders. Both Holden and Mitsubishi said yesterday they were preparing to close their South Australian operations, which relied on engines and other components sourced from Victoria.

Holden, Toyota and Ford estimated the disruptions would cost each of them A$10m a day in lost sales.

The carmakers between them have laid off or forced leave on 13,000 workers since the disruption. If the crisis continued, about 56,000 workers would be affected, the Manufacturing Workers Union said.

Some companies, such as Coca-Cola Amatil, which bottles beverages in Victoria, have adapted swiftly: CCA said it would switch to diesel power at its Moorabbin plant from today.

CP Pokphand loses $17.1m

By Ted Bardacke in Bangkok

CP Pokphand, the Hong Kong-listed arm of Thailand's giant CP Group, said yesterday that it lost US$17.1m in the first half of 1998, compared with a profit of $12.2m a year ago.

In China, where CP Group was once the single largest foreign investor, the company suffered a $22.9m loss, against a profit of $16.3m last year.

Hong Kong losses deepened from $3.7m in the first half of 1997 to $7.5m.

Thailand began to recover substantially, contributing gains of $12.5m, compared with a profit of $3.7m last time.

Nearly all divisions suffered losses, including the core agribusiness operations, which lost $4.6m in the six-month period, compared with a profit of $17.3m a year ago.

The company partially blamed the chicken flu outbreak in Hong Kong and flooding in China for the poor results.

Only manufacturing managed to report a profit, contributing $15,000, compared with a loss of $332,000 a year ago.

Retailing, trading and property operations all reported losses, while revenues fell 5.9 per cent from $883m to $830.7m.

This year, the company convinced holders of about $100m in floating rate notes not to call in that paper early after warning that it would be unable to meet such obligations.

Since then, the CP Group, for which CP Pokphand often acts as a financial clearing house, has embarked on a big restructuring programme, shedding assets in China and slowing the pace of property development in Shanghai.

In Thailand, CP Group's core feedmill business is being consolidated into one listed entity, while the company has sold parts of its consumer and petrol business.

It is also seeking new investors and a debt restructuring deal for TelecomAsia, its telecommunications company.

Sumet Jiaravanon, CP Pokphand president and brother of CP Group chairman Dhanin Chearavanont, said that in spite of the announced losses the restructuring plans were beginning to bear fruit.

"If these half-year results are compared with the whole of last year's results, one can see that the company is actually making real progress, and that its policy of focusing on its core businesses will pay off in the long run," he said.

NEWS DIGEST

KOREA

New Kia Motors auction to be held by mid-October

South Korea yesterday said it would hold what it promised would be the final auction for the insolvent Kia motor group by mid-October. Two previous attempts were aborted this month because of demands for bigger debt write-offs by bidders.

The auction's organisers have invited Ford and General Motors of the US and Korea's three remaining carmakers, Hyundai, Daewoo and Samsung, to submit bids by October 12 with a decision to be announced a week later.

Bidders will be required to submit a combined minimum price of Won1,100bn ($795m) for Kia Motors and its commercial vehicle division, Asia Motors, but organisers said they would be flexible on debt write-off demands. This may include asking bidders to state the size of the write-offs they desire on Kia's total debt of at least Won12,000bn. Creditor banks had earlier offered to eliminate Won2,900bn in debt, but this was considered inadequate by bidders.

Hyundai, Daewoo and Samsung have participated in the two previous auctions, while Ford dropped out of the second round because of Kia's large debts. After expressing initial interest, GM decided not to submit any bids in the earlier auctions. **John Burton, Seoul**

SRI LANKA

McDonald's to open next month

McDonald's, the US fast food giant, will open its first Sri Lankan franchise in mid-October. In August last year Abans Restaurant Systems entered into a 20-year franchise agreement to manage and run the McDonald's chain in Sri Lanka. The first phase of the operation, in Colombo, is estimated to cost $3m, with plans for more restaurants in the outskirts of the capital that are expected to take five years and cost an additional $9m.

Unlike in India, where McDonald's franchises are the only ones in the world with no beef on the menu, Sri Lankans will be offered the standard menu with the exception of pork. Two other US fast food chains, Kentucky Fried Chicken and Pizza Hut, started operations in Sri Lanka three years ago. McDonald's has nearly 20,000 restaurants in more than 95 countries. **AP-DJ, Colombo**

RETAIL

Daiei warns of first-half loss

Daiei, Japan's largest supermarket operator, warned yesterday that the restructuring and the deterioration of the domestic economy would force it into the red this term.

The warning of losses, of Y983m ($7.2m) on a parent basis compared with Y1.5bn in net profits in the first half of last year, is considerably lower than earlier forecasts. In April, Daiei expected net earnings of Y500m. The group, which suspended its half-year dividend, did not release a sales forecast for this year. Last year, Daiei made a Y13 dividend payment and had planned to pay Y5 per share this term.

The group's efforts to shed unprofitable assets and close stores in Japan have been stymied by the sharp decline in land and stock values amid the economic crisis in the region. **Alexandra Harney, Tokyo**

Speculation rages over PLDT

Telecoms group faces an uncertain future, writes **Tony Tassell**

Manila's financial community has been gripped over the past three weeks by speculation of a wrangle for control of Philippine Long Distance Telecoms, the country's dominant telecoms provider, involving pivotal members of the business and political establishment.

Such speculation about a company is far from unusual in the Philippines but analysts say for once there could be some substance behind the many theories and scenarios circulating in the boardrooms and trading floors.

Brokers say there is a significant prospect that one of the Philippines' prime corporate assets could be taken over by an international company or slip back into the control of former cronies of the late president Ferdinand Marcos.

The key trigger for the speculation has been PLDT's plan to become the first Philippine corporate company to propose to introduce a "poison pill" into its articles of association to ward off a takeover.

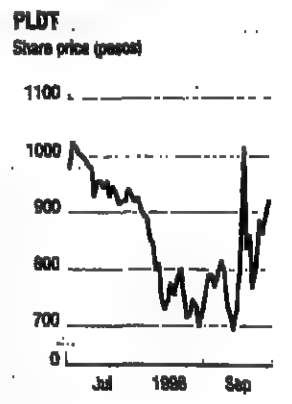
The move was widely seen as an attempt by Antonio Cojuangco, PLDT president, to shore up his tenuous control of the company after the election of the new Estrada government.

Analysts said Mr Cojuangco, a member of a leading Filipino business dynasty, had relied heavily on previous governments for support to retain control as he holds only a minority indirect stake in the company. They said the planned introduction of the "poison pill", which is being challenged by minority shareholders, indicated that the threat to Cojuangco's control may come sooner than later.

Potential candidates jostling for PLDT include key business and political figures along with a host of international companies including First Pacific, Cable and Wireless, American Insurance Group (AIG) and Telefonica, although the Spanish company has officially denied interest.

The local press suggests the foreign companies may be forming competing alliances to bid for PLDT with two influential local figures – Gregorio Araneta, a son-in-law of the late dictator Ferdinand Marcos, and Manuel Zamora, the brother of the Philippine executive secretary and former Marcos lawyer, Ronald Zamora.

The reports have also speculated that Eduardo Cojuangco, an estranged uncle of the PLDT president and former crony of Marcos, may play a "white knight" role for PLDT using his political influence as chairman of the political party of Joseph Estrada, the Philippine president.



Source: Datastream/ICV

PLDT is vulnerable because of its open shareholding structure. Antonio Cojuangco's family controls Philippine Telecommunications Investment (PTIC) which in turn holds just 20.9 per cent of PLDT. However, a 46 per cent stake in PTIC is subject to an ownership dispute, sequestered by a government commission set up to retrieve ill-gotten wealth under the Marcos regime.

Analysts said Mr Cojuangco had been able to retain management control of PLDT with the support of two government bodies, the Social Security System (SSS) and the Government Service Insurance (GSIS) which is believed to hold a stake of 2-3 per cent in the company.

The SSS fuelled speculation surrounding the company last week when it announced it had raised its stake in PLDT from about 7 per cent to 10 per cent, triggering rumours it was increasing its holding to sell on to another party. In the past few days, the rumour mill has focused on First Pacific as the buyer.

Most of the rest of the shareholding is held by a range of investors with 35 per cent of the equity in the form of American Depository Receipts. Brokers say foreign investors had expressed strong opposition to the planned poison pill clause and may be looking to reduce holdings.

Analysts say there is still some scepticism about the rumours of wrangle for control of PLDT, but it is causing violent share price swings in a company which accounts for 11 per cent of the market capitalisation of the Philippines Stock Exchange, dragging the rest of the market with it.

TYRES US GROUP POINTS TO 'UNFAVOURABLE ECONOMIC CLIMATE' IN ASIA AND LATIN AMERICA

Profit warning hits Goodyear shares

By Nikki Tait in Chicago

Shares in Goodyear Tire & Rubber, one of the world's three big tyre manufacturers, slumped almost 7 per cent yesterday morning as it became the latest big US company to warn of a profits shortfall in the upcoming third-quarter earnings season.

Goodyear blamed several factors for the lower-than-expected result, saying the "unfavourable economic and financial environment" in both Asia and Latin America was partly responsible, as was the strength of the US dollar.

There were also one-time costs related to the recent strike which caused serious disruption to production at General Motors, the largest carmaker in the US, over a two-month period.

Other costs were related to the "year 2000" computer issue and to changes in Goodyear's North American plant operations, such as moving them to 7-day working.

In an effort to combat cost pressures, Goodyear said that it was accelerating its plans to rationalise its manufacturing and distribution operations worldwide and would axe about 800 jobs in the third quarter itself.

The company has instigated a stream of belt-tightening moves over recent years, taking out thousands of jobs and disposing of various "non-core" assets.

The result of these measures would be to cut profits back to $180m-$190m in the third quarter, against $185m a year ago. Goodyear said it now expected earnings per share to be $1.15-$1.20 fully diluted, compared with $1.16 previously. It added that the third-quarter result would benefit from asset sale gains of about 20 cents a share.

Analysts had previously expecting earnings of about $1.22 a share in the third quarter, according to the consensus forecasts from First Call. By lunchtime, shares in the tyre group had slipped $3½, to $51⅞, having already tumbled from a high of more than $75 earlier this year.

In the first six months of 1998, Goodyear reported a profits increase, with earnings per share up by almost 8 per cent.

However, signs of problems began to mount when the company announced a sales shortfall in the second quarter and said total revenues had slipped to $3.1bn, compared with $3.3bn a year earlier.

At that stage, it put much of the blame on the strong US dollar, difficult economic conditions in some regions and the effect of the GM strikes.

Accounting change eats into Cendant earnings

By Richard Waters in New York

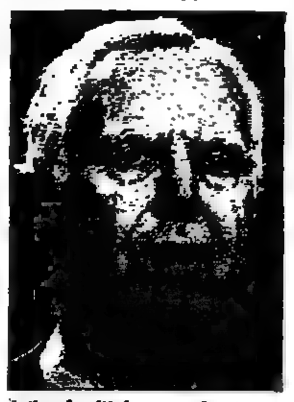
An accounting change required by the Securities and Exchange Commission will eat further into earnings at Cendant, the US franchising and direct marketing company reported yesterday.

Cendant revealed the accounting change the day after Arthur Levitt, SEC chairman, launched a campaign to try to stamp out the spread of accounting abuses among US companies.

News of the Cendant accounting change came in the company's long-awaited annual report restating its earnings since 1995 in the light of what it called "accounting irregularities and errors" at the former CUC International, which merged with HFS to form Cendant a year ago.

Those alleged frauds left the company with a restated loss of $217m for 1997, or 37 cents a share, compared with the $55m, or 6 cents a share, it originally reported.

The impact of the enforced accounting change was a small part of this, and would cut 7-9 cents a share from earnings this year, Cendant said.



Arthur Levitt: in campaign to stop accounting abuses AP

However, the move represents the latest sign of the more aggressive approach that the SEC has promised. On Monday, America Online filed its own long-delayed annual report for 1997, including an adjustment required by the securities regulators.

In Cendant's case, the change represented a more cautious approach to reporting revenues from new members who sign up for its shopping clubs. In the past, revenues were taken in the same year as the expenses associated with acquiring the new members: in future, revenues will not be reported until the following year, when the new members can not get refunds.

Cendant said that, while eating into earnings this year, the change would have a beneficial impact next year, since it plans to cut its spending on acquiring new members in 1999.

AOL, for its part, agreed with the SEC to reduce the size of a merger-related charge it had taken to write off the cost of on-going research and development at two companies it had acquired.

The premature recognition of revenue and the write-off of so-called "in process R&D" are two of five areas of accounting that Mr Levitt singled out on Monday as common abuses that threaten to dilute the quality of US corporate reporting.

He also singled out the use of so-called "big bath" restructuring charges, the creation of "cookie jar" reserves, that companies can dip into to bolster profits in times of need, and the abuse of the materiality test to keep important information from shareholders.

Levi Strauss shuts six plants

By Richard Tomkins in New York and Neil Buckley in Brussels

Levi Strauss, hit by shrinking demand for its trademark Levi's jeans, yesterday announced plans to close four factories in Europe and two in the US with the loss of more than 2,500 jobs.

The moves come less than a year after the company responded to its plummeting market share by announcing the closure of 11 US factories with the loss of 6,395 jobs.

Yesterday, the company proposed closing three factories in Belgium with the loss of 831 jobs, one in northern France with 530 jobs going and the axeing of 100 European office jobs.

In the US, two finishing factories will close in Texas, with the loss of 980 jobs.

Levi has struggled for several years to counter declining sales of its traditional five-pocket jeans, caused largely by its failure to capture the teenage market.

While the brand remained popular with ageing baby-boomers, Levi did not respond to fashions for wide-legged and baggy jeans.

Yesterday, Levi said European demand had been hit by a declining European youth population – set to fall 5 per cent by 2005.

It also cited an increased demand for non-denim products, the intrusion into its market of "own-label" brands and other competitors, and a shift in spending from clothes to other areas.

Levi said it had explored all alternatives to the closure plans, and was discussing them with its European works councils to find ways to alleviate their impact.

Carl von Buskirk, president of Levi Strauss Europe, said the group had reduced working time and manufacturing capacity by reorganising work schedules.

The Belgian closures provoked political protests yesterday. They are another blow to Flanders, little more than a year after Renault, the French carmaker, closed an assembly plant at Vilvoorde with the loss of 3,100 jobs.

Both Elio Di Rupo, Belgian deputy prime minister, and Eric Van Rompuy, Flemish regional economy minister, demanded meetings with Mr von Buskirk.

Turmoil blunts Gillette's product launch

By Victoria Griffith in Boston

Shares in Gillette fell more than 5 per cent in morning trading yesterday, as news of the shaving equipment maker's dismal third quarter hit the market.

Late on Monday, the group announced it would cut 11 per cent of its workforce and take a $535m pre-tax charge in a substantial reorganisation.

As the crisis in emerging markets worsened over the past few months, investors became wary of Gillette. Even before yesterday's decline, its share price had fallen more than 33 per cent since its July peak. That compares with an 11 per cent drop in the Dow Jones Industrial average over the same period.

Investors seemed to have been caught off-guard by the extent of the damage to profits in the third quarter. However, Al Zeien, chairman, has pointed to savings of about $200m a year once the restructuring is complete.

He believes the crisis in emerging markets will yield opportunities for Gillette to expand its presence, as competitors go out of business or up for sale.

Mr Zeien also compared the profit impact of Gillette's new generation of men's razors – the Mach3 – to that of the previous product upgrade, the Sensor, in 1990. The last time Gillette saw a downturn in quarterly profits was just after the introduction of the Sensor, as inventory and marketing expenses put pressure on earnings. The company quickly recovered, he said.

However, Mach3 has been far more expensive to make than the Sensor, costing about $1bn in manufacturing upgrades and marketing.

Also, Gillette is facing some problems that may take some time to resolve. "This is not a one quarter downturn," said Tony Vento, an analyst at the securities firm Edward Jones. Turmoil in developing nations – which account for about 20 per cent of sales – is expected to continue.

While Mach3 is performing well in the US and Europe, it is questionable whether it will prove strong enough in other countries to lift the company out of its troubles.

"Gillette is pushing products in very mature markets," said one analyst. "Mach3 is a good one, but in the end it's just a blade cutting stubble. There's also the question of how much Gillette can boost its market share. It's already the dominant player in most markets. It's just not a convincing case."

See Observer

Canadian energy set for more mergers

By Edward Alden in Toronto

The depressed state of oil and gas stocks in the Canadian oil sector has set the stage for a new round of mergers and acquisitions as companies with stronger balance sheets try to gobble up their weaker competitors.

Canadian 88 Energy, one of the country's largest gas producers, yesterday appointed takeover specialist J.P. Bryan as its new chairman. Mr Bryan, a former head of Gulf Canada Resources, said Canadian 88 was planning an aggressive acquisition campaign.

He said Canadian 88 had a strong balance sheet, with debt of just 1.5 times next year's anticipated cash flow.

The company planned to focus on gas acquisitions, where share prices have been knocked down even though gas prices have been stronger than oil prices and have better prospects for near-term increases, he said.

"There is a lot of depression in prices and asset values in Canada today," Mr Bryan said. "I think it's a wonderful opportunity to be buying."

Alberta Energy Company last month highlighted the opportunities in the depressed oil sector when it mounted a C$750m, or C$7 a share, hostile takeover bid for Amber Energy, a junior exploration company.

Amber's board of directors yesterday unanimously urged shareholders to reject that bid, calling it "an opportunistic attempt" to take advantage of the sharp drop in Amber's share price.

The Amber board argued that AEC's bid represented less than half of the nearly C$1.7bn in present value of proven and probable oil and gas reserves at Amber's Pelican Lake field.

Amber shares were at C$4.55 at the time of the bid, down from a 52-week high of C$27.25. The stock, which rose sharply after the bid, was trading at C$7.35 midday yesterday, up 5 cents.

Mr Bryan was head of Gulf Canada Resources, the oil and gas company, from 1994 until last year, when he left because of conflicts with its board.

He took Gulf on an acquisition spree that included Mannville Oil & Gas, Pennzoil Canada, Clyde Resources and Stampeder Explorations, in the process tripling Gulf's stock price. But he left the company with more than C$2bn in debt, most of it long-term, and the new management at Gulf has been selling some of those assets to bring debt down.

NEWS DIGEST

TELECOMS EQUIPMENT

Nortel in warning over lower revenue growth

Nortel Networks yesterday became the latest telecommunications equipment manufacturer to warn that revenue growth would be lower than expected this year and next. Earlier this month Nortel rivals Philips and Alcatel, Dutch and French telecoms equipment companies respectively, issued similar cautions, citing the financial crises in Asia and Russia.

Investors responded by pushing the Canadian company's share price down 12 per cent, or C$7.40, to C$54.30 before trading was halted at midday.

Wes Scott, Nortel chief financial officer, told an analysts' meeting in New York that revenue growth would be lower than expected for the next two quarters and into 1999, according to Rob MacLellan, an analyst whose firm attended the meeting. Nortel had predicted its recent US$7bn acquisition of Bay Networks, the US data networking equipment manufacturer, would dilute profits in the fourth quarter but would be accretive in 1999. Analysts, however, were concerned that Nortel paid too much for the US group.
Scott Morrison and Ted Alden, Toronto

AEROSPACE

Embraer in partnership talks

Embraer, the Brazilian aircraft manufacturer privatised in 1994, is in talks with foreign manufacturers about a possible partnership involving the sale of a minority stake. Carlos Leoni Siqueira, managing director of Bozano Simonsen, the Brazilian investment bank which holds 29.97 per cent of Embraer's voting stock, said talks had been held with Dassault of France, Saab of Sweden and Boeing and Raytheon of the US.

The bank said there was no truth to reports last week that it was preparing to sell its stake and pass control to a foreign group. It continued to be "very satisfied" with its investment in Embraer, which reported first-half profits of R$47.2m (US$39.8m) and is on course to complete its first full year in profit since 1989. Its turnround since privatisation is based on the success of its regional passenger jets. Outstanding orders and options are worth about US$4.5bn. Industry sources say a deal with a foreign manufacturer could allow Embraer to expand its military division. **Jonathan Wheatley, São Paulo**

AVIATION SERVICES

AMR plans disposals

AMR, parent of American Airlines, the second biggest US carrier, has hired investment bankers to find buyers for the companies making up its AMR Global Services unit, which provides aviation services for about 200 airlines at 65 airports and other locations around the world. AMR said it wanted to focus on its core airline and related technology businesses.

AMR hopes to sell the businesses in the first quarter of next year. It said it had no plans to change the ownership of its core businesses, comprising American Airlines and American Eagle; Sabre, its computer reservation system and information technology division; and the remaining businesses in its management services group, including Airline Management Services and AMR Investment Services. **Richard Tomkins, New York**

CHEMICALS

Rhodia to sell Brazil unit

Rhodia, the French chemicals group majority-owned by Rhône-Poulenc, is preparing the sale of a Brazilian subsidiary, Rhodia-Ster, which is South America's biggest supplier of PET resins used in the manufacture of plastic bottles for soft drinks and food oils. No value has been put on the sale but it is understood to be about $250m. Last year, Rhodia-Ster made a loss of R$155m (US$131m) on turnover of R$383m. The sale is part of Rhône-Poulenc's worldwide move out of polyesters to concentrate on its core chemicals activities, which will account for 95 per cent of group sales. **Jonathan Wheatley**

BANKING COMPANY CHIEFS ATTEMPT TO BOOST STAFF MORALE OVER INTERNAL INQUIRY INTO US INVESTMENT LOSSES

UBS awaits outcome of hedge fund probe

By William Hall in Zurich and Clay Harris in London

The two top executives at UBS yesterday moved to shore up morale at the embattled bank as Switzerland's chief banking regulator questioned its risk management and controls.

Mathis Cabiallavetta and Marcel Ospel, chairman and chief executive respectively, told staff they would be informed by the end of the week of the outcome of an internal inquiry into UBS's disastrous foray into a US hedge fund.

UBS last week said it would take a SFr950m ($682m) charge relating to its exposure to Long-Term Capital Management, which included an options deal and an equity investment.

Acknowledging "deeply disturbing" losses, Mr Cabiallavetta and Mr Ospel urged staff to "face customers with reassurance if they contact you". They said "intensive investigations were under way" before last week's announcement.

Daniel Zuberbühler, director of the Federal Banking Commission, said meanwhile that the LTCM losses raised further questions about the "weakness in the risk management and controls at UBS which we had already detected at the old UBS".

The size of the losses presented no threat to the bank's depositors, but it raised serious questions "about how a bank of this size could get into these sorts of problems", he said.

Mr Zuberbühler said he would publish the results of his latest investigation into UBS's ill-fated involvement with LTCM. In July, the commission published a report identifying flaws in UBS's risk management which allowed last year's SFr625m losses on global equity derivatives.

The commission yesterday formally established a new division to supervise the global activities of UBS and Credit Suisse, in light of concerns they have grown too big to be regulated like the rest of Switzerland's 400-odd banks.

UBS shares, which were SFr419 ahead of last week's LTCM announcement, dropped nearly 7 per cent to SFr315. UBS's market value has fallen by SFr20bn in four days.

Pictet & Cie, the Geneva private bank, said the stock market's faith not just in UBS, but in the entire banking sector as a whole had been shaken in the past few days and it would take some time for confidence to be rebuilt.

Pictet cut its estimate for UBS's 1998 net income from SFr5.4bn to SFr3.9bn. Recent events had dented the credibility of UBS's policy on disclosure of information and it would take more than a few months to "restore its image".

Alitalia surges 83% as recovery continues

By James Blitz in Rome

Alitalia, the Italian national carrier, yesterday showed further signs of the turnround which started eight months ago, with an 83 per cent increase in underlying first-half profits.

The group, which is still 53 per cent owned by the Italian government, said operating profits rose from L254bn to L559bn ($336m).

The company, which appears to be enjoying improved fortunes under Domenico Cempella, the chief executive who took over two years ago, said a range of factors had contributed. Principal among these was a new sales strategy which concentrates on attracting business passengers, and the effect of programmes that aim to reduce staff and production costs.

There was also a drop in fuel prices over the period and lower financial charges because of lower market interest rates and the decline in the group's debt.

Consolidated net profit after tax and exceptional items in the first six months was L152bn, compared with L144bn. When exceptional items and taxes are taken into account, the profit comes in at L243bn, against L40bn.

Last year's interim profits put the state-owned Alitalia back in the black for the first time in a decade. Mr Cempella, who has spent his entire career at the company, is thought to have helped the recovery of two companies within the group – Alitalia Team and Alitalia Express – which set standards for the rest of the organisation.

The group is also benefiting from a capital injection from IRI, the state holding company, of L2,750bn, approved by Brussels.

Alitalia's board yesterday stressed that its three-year industrial strategy would not be hurt by problems besetting the Italian government and its plans for the formal opening of Malpensa airport in Milan next month.

It said a dispute between Rome and Brussels would "not have any negative impact" on the strategy.

The government had intended to open a large new hub at Malpensa on October 25, with a range of European airlines moving to the new airport from nearby Linate.

However, the size of the hub is set to be temporarily scaled down after Brussels demanded that Alitalia's European rivals should continue to operate from Linate, which has better road and rail links.

Domenico Cempella: at the helm while fortunes have improved

Portfolio revamp continues at Philips

By Gordon Cramb in Amsterdam

Philips, the Dutch electronics group, yesterday continued the revamp of its product portfolio by agreeing the sale of part of its components activities for a price believed to be around Fl 1bn ($500m).

At the same time, it committed some Fl 700m to a long-awaited microchip plant, choosing Singapore as the location. The wafer fabrication facility, costing US$1.2bn in all, will be built in partnership with its Taiwan Semiconductor associate and Singapore's state Economic Development Board.

"Our projections show that by the time this new facility comes on stream late in the year 2000, the market for logic chips will be strong," Philips said. The group's semiconductor business concentrates on devices used in specific products, like mobile phones. It said margins on these remained respectable in the face of a glut in commodity memory chips.

The buyer is Compass Partners International, a newly established private equity fund with offices in London and New York. This is the first significant transaction for Compass, in which John Clark, ex-chief executive of BET, the UK industrial group, has joined forces with investment bankers formerly with Morgan Stanley of the US and the Bahrain-based Investcorp.

Philips is known to have sought a financial rather than an industry purchaser in order to protect its access to the output of the unit, which Compass has undertaken not to sell for two years.

The passive components operation, one of the world's largest in its segment, has plants in the Netherlands, Belgium, Germany and Austria as well as in the Americas and Asia. Although financial details were not disclosed, it is believed to be profitable, attracting a price roughly equivalent to its nearly Fl 1bn in annual sales.

The Singapore wafer plant represents the end of a protracted assessment of possible sites by Philips. The Dutch group will have 48 per cent of the equity in the venture, with Taiwan Semiconductor holding 32 per cent and the island state the remainder. About 40 per cent of the total funding needed would be raised through loans, indicated Arthur van der Poel, who heads Philips Semiconductors.

Full capacity would be reached by 2003. Philips' newest facility, in the Dutch city Nijmegen, had reached break-even with about half its final capacity installed after starting in June 1996, he added.

Philips completed its $800m tender offer yesterday for ATL Ultrasound, a US maker of medical diagnostic systems. Together with the semiconductor deal it marks a return to investment in facilities after two years of cuts and closures.

Olivetti signals recovery with lower first-half loss

By James Blitz in Rome

Olivetti, the Italian information technology and telecommunications group, said yesterday it had narrowed its pre-tax loss for the first half of this year, to L89bn ($53m), from L334bn in the same period of 1997.

In a further sign of the company's recovery, consolidated revenues rose 58.8 per cent to L2,903bn. That included for the first time Omnitel, its mobile phone subsidiary, but excluded Olsy, which was sold to Wang in March.

The group, which is focusing on telecommunications, said it expected to post a consolidated net profit for the full year.

Olivetti said its improved performance was helped by a 149 per cent increase in revenues from Omnitel, Italy's second mobile phone licensee, to L1,680bn in the first six months. It said Omnitel had 4.7m subscribers at September 10.

Olivetti's board also announced it would launch a tender offer to acquire all of the shares in Tecnost, a company active in specialised technology systems, of which Olivetti owns 50.1 per cent. The tender offer, to be made at a price of L6,400 per share, would lead to a total cash outflow of L162bn.

Ericsson director to step down

By Tim Burt in Stockholm

Ericsson, the Swedish telecommunications group, yesterday announced the departure of a senior divisional director whose job is expected to disappear in a forthcoming restructuring.

The company, due to unveil a comprehensive overhaul next month, said Anders Igel had decided to step down as head of the Infocom Systems, the division responsible for network operations and public switching systems.

The division – along with Ericsson's mobile systems arm and the mobile phones and terminals business – is to be replaced by a new matrix organisation focused on three customer segments: network operators, private consumers and commercial enterprises.

Mr Igel, who has spent 20 years at Ericsson, is the second senior executive to submit his resignation in the past six weeks.

Last month Bo Hedfors, a 30-year Ericsson veteran, defected as head of the group's North American operations to join arch-rival Motorola of the US.

Yesterday, however, Mr Igel said his decision did not reflect any dissatisfaction or unease at the proposed restructuring. "I believe there is a need for a change within the company, the market has changed significantly," he said. "There needs to be more convergence between fixed and mobile systems."

Ericsson stressed that his departure would not lead to any relaxation in the ongoing restructuring of Infocom, where the workforce has been cut by 15,000 over the past two years. A further 5,000 jobs are expected to go in the coming 12 months – reducing the divisional workforce to 35,000.

Swedish bank lifts Hansapank stake

By Tim Burt in Stockholm

FöreningsSparbanken, the Swedish lender, yesterday lifted its stake in Hansapank, Estonia's largest bank, to almost 50 per cent after buying out a minority stake held by Swedish rival SEB.

SEB, formerly known as Skandinaviska Enskilda Banken, has sold its 18 per cent stake in Hansapank to FöreningsSparbanken for an undisclosed sum, although it confirmed it would make a one-off gain of SKr200m ($25.5m) on the transaction.

The move ends several weeks of wrangling between SEB and FöreningsSparbanken, which have been competing to increase their presence in the Baltic region.

By acquiring SEB's stake, FöreningsSparbanken will lift its Hansapank presence to just over 48 per cent.

Yesterday, however, the Swedish bank said it intended to hold no more than 35 per cent of the Estonian lender in the longer term, and hoped to place some of the shares with other institutional investors.

FöreningsSparbanken also re-affirmed plans to underwrite a EKr1.4bn ($105m) rights issue to increase Hansapank's bank's share capital. "I foresee a development similar to what we have started through alliances in Finland, Norway and Iceland," said Reinhold Geijer, chief executive of FöreningsSparbanken.

FöreningsSparbanken inherited its stake in the Estonian lender this summer.

NEWS DIGEST

RETAIL

Vendex shares slip as rival KBB bid emerges

Shares in Vendex, the Dutch stores group, slipped nearly 5 per cent yesterday after the emergence of a Fl 1.82bn ($960m) rival bid approach for KBB, the chain with which it has spent more than seven months planning a merger.

KBB, operator of the Bijenkorf department stores and Hema mass-market outlets, saw its shares jump almost 9 per cent. They closed Fl 12.60 higher at Fl 155 following an announcement by the privately owned WE International that it was willing to pay Fl 160–Fl 165 a share. The rise came in spite of a statement by KBB which, though acknowledging it had held discussions with WE at the suitor's request, said further talks were "not in the interest of the company". Vendex, whose stock was down Fl 3.70 at Fl 72.50, is offering Fl 145 a share and, in the repeated words of Jan-Michiel Hessels, its chairman, "not a cent more". But in a statement required under Dutch merger rules, Vendex said last night that it was "now deliberating on the situation which has developed".

The VEB, the Dutch shareholders' association, maintains the Vendex offer inadequately reflects KBB's property holdings and business prospects. It claims to speak for up to 40 per cent of KBB equity.

WE operates 260 clothing stores and holds minority investments in other retailers, including 5 per cent of KBB. Its intervention comes ahead of a final ruling on the Vendex bid by Dutch competition authorities, due next week. **Gordon Cramb, Amsterdam**

STEEL

Arbed expects 'vintage year'

Arbed, Europe's biggest maker of raw steel, predicted 1998 would be a "vintage year" in spite of the deteriorating world outlook for steel, as it reported a threefold increase in first-half net profits from LFr1.79bn to LFr5.74bn ($166m). The Luxembourg-based group said the improvement was largely due to its acquisition last year of a 35 per cent stake in Aceralia, the Spanish steelmaker formerly known as CSI, whose results were consolidated for the first time.

But, echoing groups such as Hoogovens of the Netherlands, it warned that steel prices were likely to come under pressure in the second half, following the financial crises in Asia and Russia. Fernand Wagner, chief executive, said the EU and US markets remained stable in spite of downturns elsewhere. But he said the steel market would suffer from "distortions of competition" after currency devaluations in Asia, particularly in South Korea. He warned that companies in those countries were continuing to produce in spite of a severe decline in consumption, leading to the possibility of dumping on European markets. Steel imports to the EU were up 73 per cent, he added.

Arbed's turnover jumped from LFr127.9bn to LFr221.9bn, with gross operating profits more than doubling from LFr11.3bn to LFr25.7bn. Crude steel production increased 65 per cent, from 6.2m tonnes to 10.2m tonnes, including Aceralia. Earnings per share more than tripled from LFr203 to LFr640. **Neil Buckley, Brussels**

INSURANCE

GAN reveals new structure

GAN, the newly privatised French insurance company, yesterday announced a sweeping restructuring to refocus activities on insurance. The new structure will revolve around five profit centres – such as general insurance, brokerage, life insurance – each responsible for its resources and results. GAN said the shift was a "major cultural change" and would make it more "flexible and dynamic". GAN and Groupama, which acquired the insurer from the French government in July, will continue to operate separate product lines and sales networks. Synergies and economies of scale will only be sought in asset management, international expansion and some specialised activities. **Samer Iskandar, Paris**

SOUTH AFRICA

Sasol drops AECI bid

Sasol, the South African synthetic fuel and petrochemicals group, yesterday abandonned its takeover bid for AECI, the chemicals and explosives company controlled by Anglo American Industrial Corporation, because of what it called "unacceptable" conditions imposed by the Competition Board.

On Monday, the Board said the deal – already agreed by Amic – should only proceed if it excluded the fertiliser and explosives businesses of AECI. Sasol said the acquisition could only be justified if it led to rationalisation and economies of scale in those two sectors. "The Competition Board finding makes the realising of such synergies impossible and renders the acquisition of AECI by Sasol not economically justifiable," Sasol said.

Recent falls in share prices on the Johannesburg Stock Exchange have also undermined the logic of the deal. Sasol offered R30 for each AECI share four months ago, but AECI closed yesterday at R11.25, down a further 12 per cent after dropping 47 per cent on Monday. Sasol shares rose 45 cents yesterday to R27.45. **Victor Mallet, Johannesburg**

TEXTILE MACHINERY

Saurer warns as orders fall

Shares of Saurer, one of the world's biggest textile machinery makers, fell 15 per cent to SFr760 yesterday after it warned of a sharp fall in orders owing to the financial crises in Russia and Asia. The company plans to cut 700 jobs over the next six months. Textile machinery orders fell 25 per cent, to SFr728m ($523m), in the first eight months of 1998 and orders on hand fell by more than a third to SFr302m. Net profits in the first eight months of 1998 rose 41 per cent to SFr90m, helped by strong financial profits. **William Hall, Zurich**

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CEMENT INDONESIAN GOVERNMENT ACCEPTS $114.6m OFFER FROM MEXICAN PRODUCER

Cemex acquires stake in Semen Gresik

By Sander Thoenes in Jakarta and Henry Tricks in Mexico City

Indonesia's government yesterday accepted a $114.6m offer by Cemex, the Mexican cement company, for a minority stake in Semen Gresik, a partially privatised cement mill.

The announcement marked the first sale in two years of government shares but returns were well below expectation. Most other privatisations have been stalled, leaving Indonesia far short of the $1.5bn it had hoped to raise from 12 such sales this year.

Heidelberger Zemen of Germany, Holderbank of Switzerland and Lafarge Asia Pacific of France registered for the tender but declined to make any counterbids after Indonesia first declared Cemex the preferred bidder and then reduced the sale from 35 to 14 per cent.

Cemex offered $114.6m, or $1.38 a share, similar to its original bid for 35 per cent but without the additional investments it had pledged.

Cemex shares were down about 2 per cent in Mexico in early trade yesterday, reflecting concerns that the bid was too high.

Gresik shares are currently trading at more than half the price Cemex paid for them, and analysts said the premium was only justified if the Indonesian government allowed Cemex to increase its stake to a majority within three years.

"Cemex is stuck with a minority stake that it could have bought in the market for 60 cents a share. I think they should have bid lower given the uncertainty," said Gordon Lee, a cement analyst at Deutsche Bank Securities in Mexico City.

Last week, Cemex said it had the right of first refusal to buy the Indonesian government's remaining shares within three years at today's purchase price plus 8.2 per cent per year.

"We welcome the finalisation of this process and are pleased to be an investor in Indonesia's future," Lorenzo Zambrano, Cemex chairman, said. The Indonesian government last month suddenly dropped plans to sell a majority stake in Gresik after two small and peaceful protests against foreign ownership at two mill sites.

Gresik reported Rp145.1bn ($13.4m) in net profits for the 1998 first half, against Rp87.4bn in 1997, despite Rp21bn in foreign exchange losses and Rp142.5bn in interest expenses. Sales rose 34 per cent to Rp961.8bn while competitor sales slowed due to the economic crisis. Sales are expected to fall in the second half.

Cemex has said it hoped to use Gresik as a source for the Rizal cement plant in the Philippines, in which it bought a 30 per cent stake last year. The slump in demand in Asia has forced Gresik to run at 55 per cent of its 12.7m tonnes capacity.

Javier Bofarull, president of Cemex Asia, has said he expected Gresik to sell only 8m tonnes domestically this year but he expected an annual growth of more than 6 per cent for Indonesia's domestic market once the economy picked up.

DaimlerChrysler meets on staff

By Haig Simonian in Paris

Daimler-Benz and Chrysler will identify the 250 managers expected to run the merged group after their deal closes in mid-November.

Preliminary selection of DaimlerChrysler's executives below boardroom level began at a meeting of the two companies' boards in Stuttgart on Saturday.

The process will be cemented by a meeting of the top 300 staff in early December to discuss strategy, culture and long-term targets. In the interim, work will accelerate on identifying big cost savings.

Jürgen Schrempp, Daimler-Benz chairman, said the two companies had set up 98 "issue teams" to identify and implement savings. The teams, of four and six senior staff, are drawn equally from Daimler-Benz and Chrysler executives.

Their recommendations would be put to the Chairmen's Integration Board – the top management level of DaimlerChrysler.

Mr Schrempp, at the Paris motor show, said the board would decide whether to implement the suggestions, set a timetable and monitor progress. The suggestions "will have a quantifiable impact on the bottom line", he said.

Mr Schrempp said some of the teams had already made preliminary recommendations. However, for legal reasons, implementation had to wait until closure. "By the time of closing, we will have set up everything," he said.

Recommendations made so far confirm Daimler-Benz's dominant role in areas, such as advanced engineering technology, where it has traditionally spent heavily. However, Bob Eaton, Chrysler chairman, said his company would dominate in some technologies, such as electric vehicles, where it had "pockets of excellence".

According to the preliminary plans, Daimler-Benz vehicles would generally be the first to introduce new technology to its vehicles.

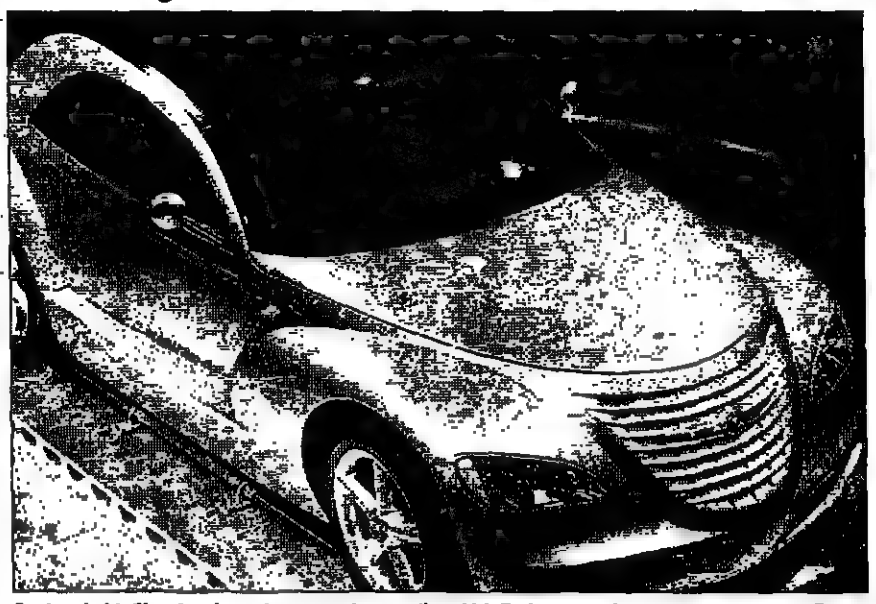
Both men stressed product development would continue independently, with no shared platforms. "However, we will be sharing engines and components of all types," said Mr Eaton.

In the short term, one of the quickest benefits would come in the combination of the financial services arms of the two groups, he said.

● Peugeot-Citroën of France and Ford of the US yesterday announced plans to develop jointly a family of small diesel engines, writes David Owen in Paris. The move, a new example of project-by-project co-operation between leading international carmakers, was described by Jean-Martin Folz, Peugeot-Citroën chairman, as "our response to the challenge of globalisation".

The estimated FFr2bn ($355m) cost of the project, which has a targeted development time of two-and-a-half years, will be shared.

The new engine will be produced in the Douvrin plant in France and will replace the so-called TUD engines currently used for the small Peugeot 106 and Citroën Saxo models.



Century bold: Chrysler shows its concept car at the 100th Paris motor show Reuters

Metra blames Asian crisis for falling profits

By Tim Burt in Stockholm

Metra, the Finnish engineering, ceramics and steel group, yesterday warned that market turmoil in Asia and cost overruns would undermine profits this year at Wärtsilä NSD, its largest division.

The company has launched a cost-cutting study, which is likely to result in several hundred job losses at Wärtsilä NSD, one of the world's leading suppliers of industrial diesel engines.

"We are in discussions with unions and employee representative about possible redundancies in Sweden, the Netherlands, Switzerland and France," said Sven Berdlin, head of manufacturing at Wärtsilä NSD.

The division relies on Asia for about 40 per cent of its sales.

Mr Berdlin said demand had collapsed in Indonesia, its largest single market, where sales in the first four months of this year fell below FM20m ($3.9m), compared with full-year turnover of FM789m in 1997.

Senior Metra officials emphasised, however, that the problems would not affect its proposed three-way demerger, planned for mid-1999.

Under that proposal, Wärtsilä NSD and Metra's finance activities are to become a single diesel and gas engine company listed on the Helsinki stock exchange. Sanitec, Metra's bathroom products company, and its Imatra Steel division will be quoted separately.

The company said those two divisions were trading in line with forecasts. It predicted, moreover, that its full year profits would be enhanced by a capital gain on shares sold in Assa Abloy, the Swedish security equipment company.

Further details of the restructuring are expected to be announced next month.

Of the likely redundancies, some 200 jobs will go at Wärtsilä NSD's manufacturing plant in southern Sweden as production is moved to the Netherlands.

Further job losses are also expected at four sites – two in France and two in the UK – operated by the joint venture company Cummins Wärtsilä Engines.

Metra's most commonly traded B shares fell FM0.50 to FM101.

NEWS DIGEST

ITALY

Parmalat to postpone L1,000bn capital increase

Parmalat, the acquisitive Italian food group, yesterday postponed a controversial L1,000bn ($602m) capital increase due to turbulence in world financial markets. The company, which lifted first-half pre-tax profits 36 per cent to L227bn on a 43.5 per cent increase in group revenues to L4,582bn, said it had no current need for fresh funds.

The planned capital increase had come under fire from financial analysts because it involved only non-voting savings shares. **Paul Betts, Milan**

FINANCIAL REGULATION

Analysts agree ethics code

International associations of financial analysts have agreed on a code of ethics and professional standards, designed to "enhance the credibility of investment professionals throughout the world". It has been developed by a task force of the International Council of Investment Associations, a body that brings together analysts from the US, Europe, Asia, Latin America and elsewhere.

Launching the code at this week's congress of the European analysts' federation in Brussels, David Damant, president, said that at a time when regulators were becoming more and more involved in the investment industry it was important for the profession to set standards of its own. The code is not mandatory, however. **Barry Riley**

BROADCASTING

Mediaset rises 14.5% midway

Mediaset, the Italian television group controlled by Fininvest, the holding company of former Italian prime minister Silvio Berlusconi, reported a 14.5 per cent rise in first-half pre-tax profits to L670bn ($403m) on a 13.1 per cent increase in consolidated net revenues to L1,982bn.

The media group, currently in talks to form a European television alliance with Germany's Kirch group and Rupert Murdoch's News Corp, said advertising revenues for the first nine months of the year were 11.5 per cent higher than those of the same period last year. **Paul Betts**

INFORMATION SERVICES

China Internet in Taiwan deal

A Hong Kong-based Internet firm majority-owned by China's official Xinhua news agency said yesterday it had clinched its first commercial deal with Taiwan's official Central News Agency (CNA).

China Internet, about 60 per cent owned by Xinhua, said it would repackage, promote and sell real-time business news from CNA, via the internet, to subscribers in mainland China and Hong Kong.

Internet users will be able to subscribe to the product via China Internet's websites. Beijing regards Taiwan as a renegade province that must be brought under its rule, putting the two frequently at odds. China Internet hailed the deal as providing an information link between Taiwan and the mainland. **Reuters, Hong Kong**

PHARMACEUTICALS EARLIEST CLINICAL TRIALS FOR POSSIBLE TREATMENTS ARE THREE TO FOUR YEARS AWAY

Chiroscience makes immune gene discovery

By Virginia Marsh

The UK biotechnology sector received a boost yesterday with the news that Chiroscience, one of its more successful members, had discovered the gene that controls the human autoimmune system.

If the discovery can be developed into treatments, it might be applicable to a range of diseases, from cancer to diabetes and allergy.

"This gene is a virtual 'off/on switch' for the immune system," said Robert Jackson, the Cambridge-based company's research director.

Diseases in which the immune system must be suppressed include rheumatoid arthritis, diabetes, psoriasis and allergy. Those where it needs to be boosted include cancer and Aids.

The shares, which have dropped this year along with the out-of-favour sector, rose 18½p to 264p, compared with a year high of 356½p.

"This is undoubtedly an interesting discovery but nobody yet knows where the true value of genomics and gene discoveries lies," said Stephen Ewing at Panmure Gordon.

Dr Jackson added that the earliest a possible treatment arising from the discovery might begin clinical trials was in three to four years.

He said Chiroscience would almost certainly bring in other partners. But John Padfield, chief executive of the company – which is trying to position itself as a gene discovery to drug development concern – added it would continue its research and wait until it had "added significant value" to its discovery.

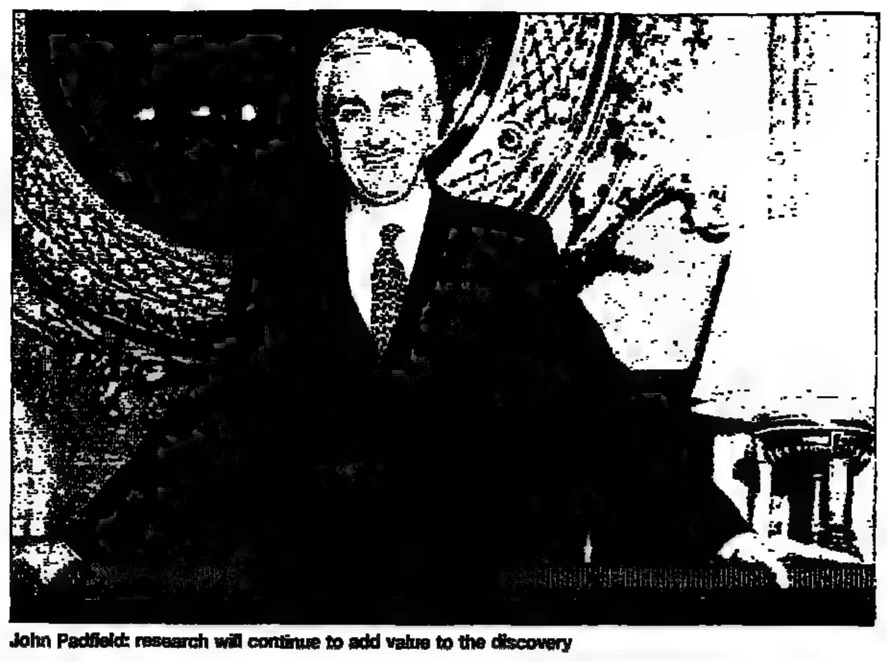
The gene was identified in the "scurfy mouse" – a unique strain of mice discovered half a century ago which live for only about three weeks because of their massive production of the cells that trigger immune responses. The gene was cloned earlier this year before Chiroscience identified the human version. Researchers are now studying the gene's mechanisms to determine methods to activate or inhibit immune responses in humans.

At research and development presentations yesterday, the company also said it was close to identifying a bone strengthening gene that might help develop drugs to reverse osteoporosis.

Its work in genes had been helped by its development of new genomic technology which it is to commercialise as a separate business.

Its technology greatly broadens the scope for tracking DNA molecules, also reducing sharply the time needed for analysis. The group is already performing analysis for other companies but plans to start selling the systems shortly.

On its work in local anaesthetics, it said it had successfully tested delivery of lidocaine using a hand-held, needle-free system developed by Powderject Pharmaceuticals, another UK company. The product will proceed to further Phase II and III tests in the UK and US.



John Padfield: research will continue to add value to the discovery

COMMENT

Railtrack/train operators

Train operators should avoid Blackpool today. Brickbats are bound to fly as the Labour conference discusses transport, amid mounting frustration at train delays. True, it would take a heroically bad performance for a train company to be stripped of its franchise. But the government is increasing the ratio of stick to carrot in dealing with operators. Winning a franchise second time round could be a lot harder for some. What a contrast with Railtrack, the privatisation Labour tried hardest to scupper. The company's star pupil status is nowhere more apparent than in the deal it cut with the government to rescue the Channel Tunnel rail link.

It will be allowed a rate of return at a premium to its cost of capital to reflect the construction risk. But revenue risk is limited, as the government stands behind the revenues Railtrack will receive – at least for the project's first phase. Estimates of the present value of this first phase range widely, from £500m to £2bn, depending on which combination of rate of return, cost of debt, budget over-run and construction inflation is fed into models. The figure they all spit out, though, is positive.

Of course, the political mood music could change. Railtrack may get more public flak for late trains. Relations with the operators could deteriorate, which would benefit neither. For now, though Railtrack seems transformed from Labour's bête noire to great white hope.

Chiroscience

Investors in biotechnology companies are too bold to be box tickers. But if they were looking for a company that passed several credibility tests, Chiroscience would be it. Its gene-based technology shows promise not only in various therapeutic areas but in drug development itself, through better matching of patient and treatment. It has partnerships with blue chip companies, a product close to market and a stake in a profitmaking business. And with an ex-Glaxo Wellcome man at its head, it has made the painful transition from the founder phase. True, its most exciting discoveries will take several years to get to market – assuming success in trials. But £80m in the bank should mean the shares can continue their recovery free from fund-raising fears.

Coca-Cola Beverages shares hit by Russia

By John Willman, Consumer Industries Editor

Shares in Coca-Cola Beverages, Coke's anchor bottler for eastern and central Europe, fell 13 per cent yesterday after fallout from Russia's economic turmoil hit sales in Ukraine and Belarus.

The two markets account for just 8 per cent of the group's sales, while sales in the other 11 markets appear to be unaffected.

However, a warning that the full-year results would be hit by the Russian crisis took the shares down 21¼p to 134p.

Coca-Cola Beverages was floated on the London Stock Exchange in July at 160p and quickly traded at a premium. Yesterday, Neville Isdell, chairman, said he had always warned the company was a long-term investment, *given the nature of its territories.*

"I said there would be bumps on the road ahead, and we have reached them rather earlier than expected," he said. "But this is a medium to long-term story and we intend to stay the course."

Mr Isdell said the devaluations in Ukraine and Belarus would have a £12m ($20m) impact on the company – more if there was a further decline in exchange rates.

However, he had been heartened by the decoupling of the former Soviet bloc satellite countries from the economy of the former Soviet Union.

Sales volumes had been up 8 per cent in the first half of the year, with above-average growth in Poland and Croatia, as well as western European countries such as Italy *and Switzerland.*

Overall, turnover for the half-year to June 26 fell 6.5 per cent to £569.6m, with exchange-rate volatility reducing the sterling figure 8 per cent. After exceptional charges of £17.4m, the pre-tax loss was £2m, against pro forma profits of £12.6m.

The exceptionals included £15.4m of costs associated with the flotation, which brought together the eastern European interests of Coca-Cola Amatil, the Australian bottler, with the Italian bottling operation owned by the parent company in Atlanta. Losses on disposal of fixed assets were £2m.

Earnings per share of 0.8p last year became losses of 0.74p after exceptionals. The company warned at flotation that no dividend was likely for several years.

Flesh is put on C&W's mobile phone division

By Alan Cane

Cable and Wireless, the UK's second largest communications group, sometimes resembles a stately home undergoing drastic renovation. Unlock any door and chunks of the family jewels are likely to be revealed, dusty but priceless.

Mobile telephony makes the point. The company now has mobile operations in 54 businesses in 33 countries but it has yet to be accepted as an international participant in the cellular business in the same way as Airtouch, Vodafone or Millicom.

It has, nevertheless, 2.9m subscribers worldwide – calculated in terms of its equity holding in each of its mobile businesses.

Turnover to March 31 was £1.3bn ($2.2bn) while earnings before interest, tax depreciation and amortisa*tion came in at £166m.*

Subscriber numbers are growing 55 per cent year on year while turnover is 63 per cent up. Capital expenditure, at £541m across the group, is 48 per cent ahead.

This is the first time that the company has been able to draw together and publish a financial analysis for the mobile group.

The larger companies include Optus, the Australian fixed and mobile operator in which C&W has a 49 per cent stake, One2One in the UK, where it holds 50 per cent, HongKong CSL (54 per cent) and M1 in Singapore (20 per cent).

Now the task ahead of Lisa Gernon, head of C&W Mobile, is to pull the group's far-flung cellular interests together as a coherent whole, and to create a common identity and global *brand for the mobile* operations.

Key performance indicators have been established for each business and Ms Gernon has instituted monthly operational reviews.

The fact remains that C&W's mobile interests do *not exactly fit the criteria of* Dick Brown, chief executive, for a core C&W business. He has made it clear the group will dispose of any activity where C&W has neither a controlling interest or substantial influence.

Analysts who attended a presentation of the mobile line-of-business strategy yesterday were impressed. One said: "It was a very positive demonstration. There is a lot of value in the mobile side of C&W." The shares closed up at 34p at 584p.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amstrad	Yr to June 30	53.3	(43.1)	1.14L♠	(1.66)	1.33L†	(2.12)	0.3	Dec 4	0.3	0.5	0.5
Barr (AG)	6 mths to Aug 1	56.5	(57)	8.15	(6.55)	29.28	(23.32)	7	Oct 30	4	-	21#
British Thornton	Yr to Apr 30	6.18	(5.81)	5.29L♠	(0.667L♠)	26.7L†	(2.6L)	nil	-	nil	nil	nil
Boigin	6 mths to July 31	9.06	(9.9)	0.32	(0.527)	0.72	(1.25)	0.25	Dec 1	0.25	-	1.25
Cavendish Watesϕ	6 mths to June 30	0.2	(0.196)	0.036♥	(0.066)	0.8	(1.2)	0.9	Oct 16	0.9	-	1.8
Charterhouse Commϕ	Yr to May 31§	6.1	(3.17)	1.38	(0.72)	1.04	(0.76)	0.22	Dec 30	0.14	0.34	0.14
Chime Comm	6 mths to June 30	38.4	(19.1)	4.03	(1.7)	2.2	(1.9)	0.7	Nov 19	0.65	-	1.9
Cobham	6 mths to June 30	191.6	(162.6)	30	(24.9)	21.6†	(18.2)	4.65	Dec 11	4.05	-	13.25
Coca-Cola Bevs	6 mths to June 26⁂	569.6	(608.9)	2L♠	(12.6)	0.74L	(0.8)	-	-	-	-	-
Consolidated Coal	Yr to Mar 28	6.64	(6.72)	0.066	(6.47L♠)	0.1L	(21.7L)	-	-	-	-	-
Derwent Valley	6 mths to June 30	12■	(9.6■)	4.6	(5)	7.02†	(9.21)	2.2	Nov 9	2.05	-	6.7
Friends I&S	4½ mths to June 30☆	17.4	(10.2)	6.9♥	(3.97)	4.37†	(8.29)	3	Oct 15	2.85	-	6.89‡
Hepworth	6 mths to June 30★	319.8	(362.7)	31.5	(11.1♠)	8.8	(1.3)	3	Dec 10	3	-	9
Intermediate Cap	6 mths to July 31	-	(-)	19.4	(11.5)	[illegible]	(17.5)	6.1	Oct 30	3.4	-	17.4
Lamont	6 mths to June 30	42.1	(44.9)	3.54♥	(3.09)	9.24	(7.89)	3.85	Dec 1	3.65	-	12.8
Leeds	Yr to June 30	3.12	(3.9)	0.998	(1.23)	8.46	(8.3)	2	Nov 17	2	2	2
Lyles (S)	Yr to June 30	19.7	(20.1)	0.807	(0.504)	10.5§§	(6.29)	2	Jan 4	1.5	3	2.25
Marylebone Warwick	Yr to June 30	81.1	(19.5)	10.1♥	(10.1L♠)	13.8†	(22.1L)	2.5	-	2.5	3.75	2.5
Metnorϕ	6 mths to June 30	5.09	(4.54)	0.997	(0.701)	8.8	(4.75)	-	-	-	-	-
Minerva	Yr to June 30★	36.7■	(25■)	7.9♠	(9♥)	7.1†	(8.5)	1.7	Apr 6	1.5	2.5	1.5
Northern Leisure	Yr to Aug 31	57.6	(34.7)	14.1	(8.52)	9†	(8.1*)	3.5	Oct 30	1.75*	5.75*	3*
Ottakar's	6 mths to Aug 1	20.4	(12.6)	0.458L	(0.288L)	2.26L†	(3.88L)	0.75	Dec 1	-	-	-
Petra Diamondsϕ	15 mths to June 30	0.28	(-)	2.49L	(-)	8.36L	(-)	-	-	-	-	-
Property Tst (PVT)	Yr to Mar 31	4.77	(3.93)	6.82L	(1.3)	16L§§	(5.93)	-	-	-	-	-
QS	6 mths to Aug 1	28.1	(25.8)	0.584L	(0.899L♥)	1.19L	(1.47L)	nil	-	nil	-	nil
Rutland Trust	6 mths to June 30	53.5	(67.1)	36.7♥	(7.48)	8.59	(2.16)	0.5♦	Nov [illegible]	0.45	-	1.7
United Assurance	6 mths to June 30	-	(-)	189.7♠	(77.6♠)	32.9	(9.5)	8	Nov 5	7	-	21
Wace	6 mths to June 30	106.1	(138.6)	29.7L♠	(56.8L♠)	30.8L	(72.5L)	nil	-	nil	-	nil
Watts Blake Bearne	6 mths to June 30	50.4	(50.5)	4.56♠	(5.47)	13.8	(15)	4.4	Nov [illegible]	4.4	-	17.8
Wimpey (George)	6 mths to June 30	586.8	(529.1)	25	(12.5)	4.89	(2.33)	2.1	Oct 28	2	-	5.7

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen C'vertible	Yr to June 30	128.78	(100.36)	2.05	(1.81)	7.8†	(7.96)	1.887	Oct 15	1.487	7♦	6.8
Henderson Japanese	Yr to July 31	42.7	(72)	0.418L	(0.713L)	0.42L	(0.71L)	nil	-	nil	nil	nil
Pennine Aim VCT II	6 mths to Aug 31	125.7	(98.25)	0.027	(0.035)	0.57	(0.8)	-	-	-	-	2.18
Perpetual Japanese	Yr to July 31	34.6	(53.9)	0.063L	(0.05L)	0.2L	(0.2L)	-	-	-	-	-
St David's	9 mths to Aug 31	383	(304)	1.4	(1.21)	17.1	(14.72)	-	-	3	-	19
Second St David's	9 mths to Aug 31	-	(-)	0.822	(0.769)	-	(-)	4‡‡	Oct 31	4	-	17

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. #For 15 months to January 31. ϕAim stock. §Comparatives for 39 weeks to May 31 1997. ⁂Pro forma. ■Rental income. ☆ Comparatives for six months. ‡For 9½ months to February 17. ★ Comparatives restated. §§On reduced capital. *Equivalent after adjustment for scrip issue. ♦Excludes special. ‡‡Third interim; makes 9p to date.

British Land in Broadgate buy

By Jonathan Ford

One Exchange Square, the luxurious London home of the European Bank for Reconstruction and Development, has been bought by British Land in a deal valuing it at £206m ($338m).

The deal extends British Land's control of the Broadgate Centre, a 4m sq ft office development in the City of London near Liverpool Street Station, of which One Exchange Square forms a part.

It means the property company now controls more than 2.5m square feet of space in the development, giving it greater pricing power over the level of rents.

British Land has been a leading landlord in the Broadgate Centre since 1995, when it paid £246.5m for Broadgate Properties, which built the development between 1987 and 1991 but fell into financial difficulties during the last recession.

John Weston-Smith, finance director, said the group intended to continue buying Broadgate properties as they became available.

"We have made no secret of our enthusiasm for extending our interests there," he said.

British Land is buying a 999 year lease over One Exchange Square from Deutsche Grundbesitz Investmentgesellchaft, the German property investment group controlled by Deutsche Bank. DGI bought the building from Broadgate Properties in 1993 for £170m.

The building comprises 385,000 sq ft of office accommodation and has been let by the EBRD since December 1992 at an annual rent of £14.4m a year. The lease runs until 2016 and rents are reviewable in three years time.

At the time the EBRD first occupied the building, there was an outcry when it became public that the bank had spent £55m on interior fittings.

JEA flotation plan could be postponed

By Jonathan Ford

Jersey European Airways, the UK regional carrier, is set to postpone plans to float on the London Stock Exchange this autumn unless there is a sharp improvement in market conditions.

It would be the second airline flotation to be delayed since August. Parc Group, a Dublin-based company providing contract pilots to airlines, announced two weeks ago it was putting off its £35m ($59m) listing.

Barry Perrott, chief executive, said Jersey European had reviewed its plans following sharp falls in airline share prices: "Unless market conditions improve dramatically, we won't float."

Jersey European had not set a date for the listing, which was expected to have valued it at up to £100m.

Mr Perrott said the postponement would have no impact on investment plans. "The only reason we ever intended to float was to provide liquidity for our largest shareholder."

Jersey European is 70 per cent owned by Jack Walker, the multi-millionaire businessman who also owns Blackburn Rovers football club. "I'm sure Mr Walker will be prepared to wait until we can get the right price," Mr Perrott said.

Pre-tax profits rose 56 per cent to £5.2m in the year to March 31, mainly due to an expansion in the services it flies under franchise for Air France. Turnover increased from £94.2m to £135.3m.

Sales on Air France franchised services rose from £8m to £37m, while Jersey European branded services increased from £86m to £98m.

The number of passengers carried was up 25 per cent to 1.9m.

Revenue per passenger grew 16 per cent to £63.38. However, because of longer average journey distances, revenue per passenger kilometre rose by just 9 per cent.

The load factor fell from 64 to 60 per cent due to the increasing proportion of Air France services, which have lower load factors.

Since the year-end, market conditions weakened during the summer months, Mr Perrott said. However, revenues rebounded strongly in September.

Hepworth may shuffle assets

By Jonathan Guthrie

Hepworth yesterday said its cost-cutting programme was running ahead of schedule *and that it was considering* reshuffling its assets.

The building materials group has already made £5m in savings this year at little cost, and is optimistic of trimming a further £5m by 2000. It made a £20m provision in 1997 to cover the cost of the two-year drive to reduce overheads by £10m a year.

Jean-Francois Chene, chief executive, said: "We have got the business in better shape. We now have the *resources to reshape our* portfolio to get top line growth."

Hepworth yesterday reported interim pre-tax *profits ahead from £11.1m to* £31.5m ($52.9m), although last time's figure was depressed by a £13m loss on a disposal and a £5.9m charge for a factory closure.

Operating profits rose for the first time in four years – with the figure before exceptionals up 18 per cent to £30.8m, largely as result of a good performance from building products.

This division – which specialises in drainage, plumbing and concrete – increased *operating profits 63 per cent* to £10.9m, partly because of firmer clay pipes prices in Germany.

Tough market conditions *pushed operating profits in* the heating division 15 per cent lower to £12.4m. Falling demand for boilers in Italy triggered exports which depressed European prices.

Turnover in the six months to June 30 fell 12 per cent to £319.8m. An unchanged dividend of 3p is payable from earnings per share of 8.8p (1.3p).

SG Securities, the broker, forecasts a full-year profit of £60m (£11.7m loss). The shares rose 8p to 144p.

Cobham may seek expansion funds

By Andrew Edgecliffe-Johnson

Cobham, the in-flight refuelling group, may turn *to shareholders to fund large* acquisitions as the aerospace industry consolidates.

Gordon Page, chief executive, said: "An acquisition of *£300m might be just a step*ping stone. We would not have to go to shareholders, but we might choose to."

He said Cobham was talking to both the General Electric Company and British Aerospace about businesses which might be sold, whether or not GEC and BAe merge. Joint ventures in continental Europe may also be possible.

The group, which is thought to have considered buying BTR's £510m aviation business, had gearing of 25.9 per cent at June 30.

Cobham yesterday announced a 20 per cent rise in half-year pre-tax profits to £30m, on sales 18 per cent ahead at £192m. The shares, which have halved since May, rallied 6½p to 605p on *news that the order book* grew from £671m to £722m.

The results were partly overshadowed by news that its Westwind subsidiary, which makes air bearings for printed circuit board drilling, would report sales £4m lower this year because of the Asian economic slowdown.

Capital expenditure, including investment in a new hanger for rebuilding RAF Nimrods, rose from £4.4m to £13.9m.

Exceptional curbs WBB

By Michael Peel

Watts Blake Bearne, the clay supplier, is taking legal advice over a "misinterpretation" of data by independent experts that undermined its plans to extend a quarry.

It said yesterday that this had led to an exceptional first-half cost of £640,000 ($1.08m), which depressed pre-tax profits for the six months to June 30 from £5.47m to £4.56m on flat sales of £50.4m.

The exceptional charge related to a scheme to exploit untapped reserves in Devon of a type of clay noted for its ability to hold its shape once moulded. This property is important to a number of WBB's customers.

INFORMATION TECHNOLOGY INTERNET TRAFFIC TOOLS

Web miners hit a rich seam

Alan Stewart samples a rush of software to help companies find out how many people visit their web sites

The internet is growing up. Company web sites, often little more than an electronic annual report in the early days of the world wide web, are becoming an extended sales and marketing arm, and potentially a powerful way to interact with customers, shareholders and investors.

But how can web site operators find out how many people are visiting their sites, how long they are staying and what web pages they like best? The answer is to use site analysis software, which has matured relatively quickly from an obscure offspring of the internet industry into an established market.

Rick Kreyser, chief executive of Accrue, one of the leaders in web site tracking software, says: "Traffic analysis is fundamental to doing successful business on the web. It provides the empirical data you need to make a web business more effective and profitable."

Independent analysts agree. Juliana Nelson, a senior analyst at International Data Corporation (IDC), the IT market researcher, says it is becoming increasingly important for companies to understand their web site traffic. Building up a detailed picture of site activity enables companies to target users and to build a closer one-to-one relationship, she says.

Just as company web sites come in all shapes and sizes, so there are different web-tracking tools to match.

Basic site-reporting software is aimed at companies with low-traffic sites. Some of these tools, such as WebTrends' market-leading Log Analyser, date back to before consumer use of the internet exploded in 1994, and sell for only a few hundred dollars.

At the other end of the scale, and costing thousands of dollars, are the sophisticated tools aimed at companies with complex, heavily used corporate sites. WebTrends recently released Server Cluster Add-On, which caters for sites running on between two and 100 servers.

WebTrends' tools read data held on log files, which record web site activity and are produced by web server software from companies such as Netscape, Microsoft, and Sun Microsystems.

A plug-in will show when audio and video files are being played

Big users of its log analysis' tools include AT&T, Intel, MCI, Westinghouse and the US House of Representatives.

Also aiming at the enterprise end of the market are network-based web site activity analysers from companies such as Andromedia, Marketwave and Accrue. These tools analyse traffic in real time.

They also provide capabilities such as advanced "web mining" techniques to manipulate data, and the ability to monitor multiple servers.

A fresh addition to Marketwave's package, for example, is the ability to add "plug-in" software to report on how audio and video is being used by web site visitors as well as by employees using a company's intranet. The plug-in will show when audio and video files are being played, paused, aborted or even fast-forwarded.

Prominent among the users of traffic analysers are publishers with online versions of their newspapers and magazines. Both Newsweek Interactive and Mercury Center, the online editions of the Washington Post and San Jose Mercury News, use Accrue's Insight tracking software.

Chris Coluzzi, Mercury Center's software development manager, describes using the software as the equivalent of a broad focus group, where the group is a company's total customer base, and the focus is on how they interact with its site.

In the UK, Associated New Media, the online arm of Associated Newspapers, is using Andromedia's Aria package on its "This is London" information site.

The software is also used on its UKplus UK-specific search engine, and on Soccernet, a football site launched in 1995 by a 12-year-old boy as an after-school project.

Online publishers need to provide their advertisers with audited "circulation" figures. "Advertisers must be certain they are getting what they're paying for," says Michael J. Lavery, president of the US Audit Bureau of Circulations (ABC).

Marketwave, Accrue, net.Genesis and Andromedia have all adapted their software to support standards for independent verification of web site traffic.

These standards have been developed by ABC's online unit, ABC Interactive, which audits web sites, search engines, e-mail delivery systems, chat rooms and internet broadcasters.

A different type of user is Dallas-based InfoMart, which rents out space on its web site. To let its virtual tenants know what type of visitors their web sites are receiving, the company uses Marketwave's Hit List traffic analysis system.

InfoMart previously used Lotus Notes groupware to carry out logging, but the process was slow and quickly built up large volumes of data. It says it carries out site traffic analysis mainly to demonstrate to companies renting its web space how much traffic the InfoMart site is generating, and also to help plan sales and marketing strategies.

Microsoft has also got in on the act with its Site Server package for Windows NT. As well as analysing web site traffic, however, the software provides facilities for electronic commerce and advertisement hosting.

IDC predicts a strong five-year outlook for site analysis vendors, as long as they listen to what their customers want. Venture capitalists obviously agree that the sector has potential, given their willingness to finance its growth.

Accrue added a further $7m of venture capital this year to its existing $6m. Net.Genesis, whose customers include CBS, Dupont, Siemens and the BBC, raised $7m in a second round of financing and Andromedia increased its outside investment by $10m to $15.7m.

INFORMATION TECHNOLOGY BRIEFS

Graphics group's card turns PCs into digital movie players

As Digital Versatile Disc (DVD) players begin to replace CD-Rom drives on personal computers, PC manufacturers and many PC owners who upgrade their systems will also need a specialised graphics plug-in card to turn their machines into DVD movie players.

To meet this demand Videologic, the UK-based high performance graphics technology group, has launched a low-cost PCI add-in card called DVD Player.

The device, when combined with a standard graphics card, provides high-definition, full-screen video with Dolby Digital audio even on Pentium 133hz machines that would otherwise be too slow.

The card, which runs under Windows 95 or 98, can provide video output to either a PC monitor or an ordinary television set. For the corporate market, Videologic is expected to launch a professional version of the product that will also run under Windows NT early next year.
www.videologic.com

Kodak improves the image of digital cameras

Early digital cameras aimed at the consumer market were expensive and unable to produce the quality of image expected by traditional 35mm SLR camera users. However, new models have solved each of those problems.

Kodak's DC210 Plus zoom digital camera costs slightly less than £500 and builds on the success of its predecessor, the DC210, while the £900 DC260 provides 1,536x1,026 pixel resolution, a 3x optical zoom and a host of "smart" features.

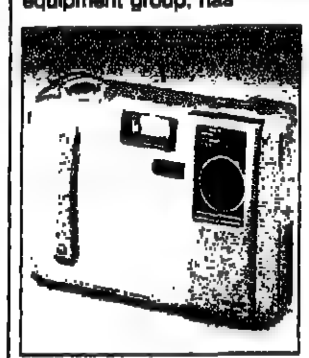
Fuji of Japan has added to its digital camera portfolio, which includes the pocket-sized MX-700, with the budget priced DX-8 for £200 and the 1,280x1,024 pixel MX-500 for £450, and Germany's Agfa group, part of Bayer, has launched the 1,600x1,200 pixel ePhoto 1680 for £600.

MGI Software, the Canadian software group, has launched a redesigned photo-editing package called MGI PhotoSuite II which it claims is the first of its kind to integrate internet browser technology.

The package, at £49.99, is designed for beginners and advanced users alike.
www.kodak.com
www.fuji.co.uk
www.agfa.co.uk
www.mgisoft.com

Pocket-sized smartphone

Alcatel, the French telecoms equipment group, has launched some innovative mobile phone products. These include the One Touch Com which Alcatel claims is the first pocket-sized smartphone to integrate three services: GSM mobile phone; personal organiser; and internet e-mail terminal. The slim package weighs less than 240g.



Finger on the digital button: Fuji's new MX-500

The One Touch Com features a large graphic touch display and stylus pen that replaces traditional telephone keys.

Alcatel's other new machines include the One Touch View with a large screen capable of displaying 75 characters at a time and the One Touch Pocket that combines a large display, built-in vibrator and integrated data capability in a shirt-pocket sized package.
www.alcatel.com

Desktop solution for mathematics

Scientists, researchers and corporate engineers need what Charles Digate, chief executive of MathSoft International, calls "a core environment where they can perform all their quantitative operations in an individual, team or organisation-wide setting". Mathcad 8 Professional, described as "the most advanced calculation application available" in a desktop package, is designed to meet this need by combining maths, visualisation and the ability to collaborate.

Mathcad 8 costs £395 plus VAT, and can be ordered online in the UK from Adept Science on *www.adeptscience.co.uk*. *www.mathsoft.com*

Paul Taylor

EURO PRICES

EQUITIES

Bourses muted as 'wait' goes on

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

For the third week running, European markets spent a session "waiting for Greenspan" as they looked forward to the announcement from the US Federal Reserve chairman of an interest rate cut last night.

While movements in most bourses were fairly muted as investors awaited the news from Washington, Frankfurt suffered a 1.65 per cent loss on concerns about the outcome of the negotiations between the Social Democrats and Greens on a new administration. German utilities stocks were nervous about the Greens' involvement.

The FTSE Eurotop 100 index fell 10.98 or 0.5 per cent to 2,338.82 while the broader Eurotop 300 index dropped 6.02 to 1,022.01. The FTSE Ebloc 100 index, comprising stocks in countries planning to join the single currency, slipped 5.5 to 845.7. The Ebloc index was over 1,100 in mid-July.

Alcoholic beverages was the best-performing sector of the day, gaining 3.76 per cent. Diageo led the way, rebounding Ecu 0.7 to Ecu 7.94 amid rumours of disposals following the losses sustained after its statement last week.

Healthcare was another strong performer although this was due to an Ecu 0.2 rise to Ecu 5.74 in the thinly traded Nycomed Amersham.

Information technology was the worst-performing sector, dropping about 3 per cent, as SAP preference shares, a volatile stock in recent weeks, fell Ecu 25.9 to Ecu 426.25.

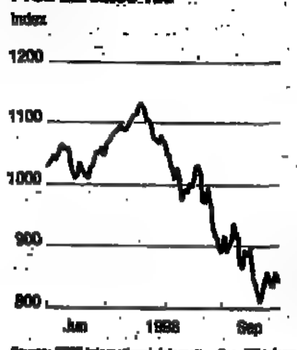
The other financial sector was another loser, with the Italian group IMI dropping Ecu 0.7 to Ecu 11.61.

Analysts continued to reassess the prospects for European corporate earnings which looked so rosy only a couple of months ago.

"1999 earnings estimates look increasing vulnerable," the European team at ABN Amro said.

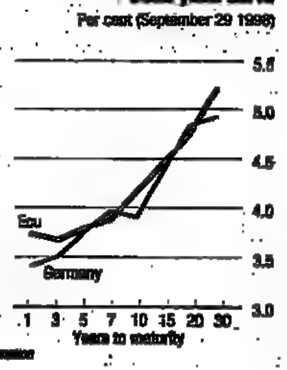
"Sustained pressure on estimates implies no quick rebound in markets but recession in the western economies is nevertheless not on the agenda. With bond/equity valuations hitting historic extremes in favour of equities, we would suggest that equities are now near a base and increasingly represent reasonable long-term value."

FTSE Eurobloc 100



Source: FTSE International, Interactive Data/FT Information

Bond yield curve



FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

September 29

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Ecu)
FTSE Eurotop 300	1022.01	-0.59	-6.02	2.71	23.31	1080.19
FTSE Eurotop 100	2338.82	-0.47	-10.98	2.71	35.56	836.81
FTSE Ebloc 100	845.70	-0.65	-5.50	2.38	[illegible]	857.52

FTSE Eurotop 300 Regions; FTSE Eurotop Industry Sectors — [illegible]

THREE MONTH EURO FUTURES (LIFFE)

[illegible]

THREE MONTH EURO OPTIONS (LIFFE)

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

[illegible]

OTHER INDICES

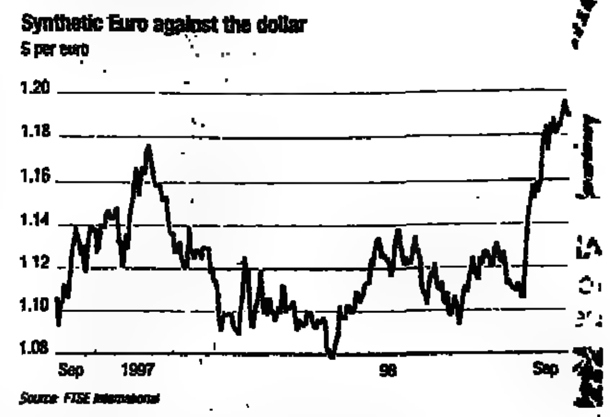
[illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

[illegible]

Synthetic Euro against the dollar



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

[illegible]

BONDS

INTEREST RATE SWAPS

[illegible]

EUROZONE CORPORATE BONDS

[illegible]

GOVERNMENT BOND SPREADS vs ECU

[illegible]

EUROZONE CREDIT SPREADS vs ECU

[illegible]

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

[illegible]

Growth in the industry tends to lag behind the economy by one to two years, says **Jonathan Guthrie**

Cranes fail to tell whole story

On arriving in a foreign city you can get a rough idea of the state of the local economy simply by counting the cranes on the skyline.

So the traveller entering Dublin by taxi will conclude that Ireland must be booming, judging simply by the array of cranes rearing up on either side of the Liffey.

Crane counting works because construction is highly visible, represents a big chunk of total expenditure in any economy – typically about 10 per cent – and is strongly dependent on growth in the general economy to grow itself.

But while some businesses, such as retailing, are at the leading edge of the cycle and are thus closely watched as indicators of growth, construction tends to lag behind the economy by one to two years.

Our traveller may therefore see more cranes raising their jibs over European cities over the next year or so following a recovery in the continental European economy during 1997.

This came after a marked slowdown that began with the recession of the early 1990s and was prolonged into 1995 and 1996 as EU states struggled to achieve the economic convergence targets required to participate in the first wave of monetary union.

Continental construction bosses hope the introduction of the euro will give economies greater stability, softening the boom-to-bust cycles that have been a feature of recent decades. Euroconstruct, an industry forecasting body, predicts that European construction output will rise at 2.3 per cent during 1999 – very modest progress by the standards of high-growth businesses such as computing, but must be set against declines of 2.9 and 0.4 per cent in 1993 and 1996 respectively.

Since 1996 the industry has been on the mend with growth estimated at 0.7 per cent in 1997 and 1.6 per cent in 1998.

Jacquie Cannon, a director of Construction Forecasting Research, a specialist consultancy, says: "The outlook is positive, with unemployment moving down and interest rates low.

"But what we will not have is a real boom, as there was at the end of the 1980s."

It is as yet not clear how much of a dampening effect will result from financial turmoil in East Asia and Russia.

Three international banks recently downgraded their growth forecasts for the 11 states that will introduce the euro next year. Construction share prices in the UK are discounting a plunge in profits.

Even before the rerating of Germany, the biggest motor of European construction, was set to enter 1999 idling. With output exceeding Ecu200bn, more than twice that of nearest rival France, Germany is the last of the European Big Five to stage a recovery. Output is forecast to grow at just 0.8 per cent following declines of 3.1, 2.2 and 0.9 per cent in the previous three years.

Germany has been hit by a series of problems which have included a sharp recession in the East, tight curbs on public spending ahead of monetary unification – belied by the forests of cranes sprouting over Berlin as it reassumes its mantle as the capital – and the heavy costs of integrating the two halves of the country following the fall of the Berlin Wall.

The industry has also had to grapple with what Klaus Stadler, head of economics at Philipp Holzmann, a big German construction company, describes as "huge overcapacity, where companies have been taking on orders at a loss just to keep volumes up and where one per cent is regarded as a high margin on a contract".

The result is that, even as Germany begins to benefit from an upturn, marginal participants are expected to continue going out of business.

The problem that faces most construction companies in Germany, as in the rest of Europe, is a structural one which merely becomes more apparent in a slowdown.

In an industry where entry costs are low, competition for contracts ensures that margins are wafer thin.

In the United Kingdom there has been a move to overcome this through "partnering".

This is new kind of contracting relationship in which clients, builders, architects and engineers work closely on a series of projects sharing knowledge and cost savings. Contractors specialising in this kind of work boast margins of up to 5 per cent.

A government-backed committee led by John Egan, chief executive of BAA, the airports and retailing group, threw its weight behind partnering this year.

However, critics are sceptical whether the approach will benefit clients and contractors engaging in one-off projects. Moreover, clients with repeat business seem likely to be the ultimate beneficiaries of cost savings, leaving contractors struggling to make ends meet on the lowest of margins.

According to a survey by the contractors Ballast Wiltshier, while European construction companies are aware of the value of partnering, most remain trapped in relationships where they win or lose contracts on price.

In the UK, where output growth is forecast to drop to 2.5 per cent in 1998 from a peak of 3.5 per cent this year, construction companies have been diversifying into businesses offering higher margins than general contracting.

Key areas are facilities management and road and rail maintenance, where a substantially privatised transport system has provided opportunities which participants hope will increasingly become available on the continent, too.

Public-private partnerships are expected to be an important feature of Spanish construction, which is forecast to enjoy growth of 4 per cent to the end of 1998, levelling off to 3 per cent next year.

Volumes will be buoyed by increased public spending, fuelled in turn by tax receipts from a strongly growing economy. Housebuilding has already taken off.

Higher spending on infrastructure will also benefit France, where construction output is forecast to grow at 2.4 per cent in 1999 following a long period of stagnation. However, the UK is alone in spending heavily on millennium-related projects such as the Dome.

Total construction output

Ecu bn, 1997 prices	1995	96	97	98*	99*
Austria	31.043	31.912	32.55	32.876	33.533
Belgium	24.666	24.122	25.46	25.522	27.726
Denmark	14.683	16.063	16.90	17.267	17.815
Finland	9.867	10.054	11.16	12.398	13.259
France	107.725	97.881	98.96	99.532	100.290
Germany	211.463	204.808	200.40	198.598	200.195
Ireland	7.762	9.120	10.24	11.124	11.822
Italy	96.323	95.051	96.85	98.622	102.686
Netherlands	32.066	32.582	33.95	34.793	35.147
Norway	12.683	12.988	13.68	13.598	13.451
Portugal	10.730	11.191	12.05	13.316	14.384
Spain	52.462	52.688	53.52	55.092	57.764
Sweden	21.375	21.581	20.20	21.098	22.366
Switzerland	23.581	22.332	21.77	21.726	21.744
UK	90.898	92.167	94.58	97.959	98.887
Total	731.578	729.991	733.78	748.665	763.114

*Forecast. Source: Euroconstruct

AWARDS • by Jonathan Guthrie

Fit for a king

Restoration of Windsor Castle earns building manager a top distinction

In a mature construction market restoration and refurbishment should, in theory, form a growing part of contractors' business. The job undertaken by this year's building manager of the year fell into this category but presented unusual challenges, including close media scrutiny.

The winner, Philip Rowley of HBG Higgs and Hill Special Contracts, took on the management of the restoration of Windsor Castle following a disastrous fire in November, 1992. The client was the Royal Household's director of property services.

Quality was of prime importance in such a high profile job. Many control samples and full size mock-ups were needed. The work was also highly specialised, with 240 different firms involved in fitting out damaged areas. The project manager needed detailed knowledge of the many trades involved to keep the work on schedule.

Mr Rowley, 43, says: "The challenging part of the job was understanding all the individual parts of which it was composed. There was no repetition, and nothing was square in structure."

The Chartered Institute of Building said that despite its small size – £28m – the project was an excellent example of the best skills and management techniques. The judges said: "The quality of the finished work in all the public areas, and the overall effect, are absolutely stunning. It is remarkable that this work has been completed within the budget and to a shortened programme."

Mr Rowley also won a gold award in one of three award categories defined by size of project: below £3m, £3m-£17m, and over £17m.

While Mr Rowley triumphed in the last category, it was Peter Adams of HBG Construction who scooped the first. Mr Adams was the project manager of the £2.9m redevelopment at Station Road in Reading. This involved building two pubs and refurbishing offices and a shopping arcade.

Work on the arcade created disruption for both shoppers and traders. Mr Adams took on a diplomatic role, visiting each shopkeeper to keep them informed on progress.

Jason Millett, of Bovis Construction, project manager of the £14.6m Forster Square commercial and retail development in Bradford, was the gold winner in the £3m-£17m category. The project was influenced by a social partnership agreement between Bovis and Bradford City Council. Mr Millett hired almost half his labour force from within a six-mile radius, increased the number of apprentices and took on students under the Bovis undergraduate scheme.

Contact with the community was also important for Tony Adams, of Wimpey Homes North East. He won Housing Constructor of the Year in the inaugural year of the award. Charged with building 48 detached homes on a green field site, he visited schools to explain to children the dangers of playing on the site. He kept stock levels low to reduce vandalism and theft.

The judges said: "Tony was in control of all aspects of management and it was refreshing to see that assurances were given to personnel and house purchasers that the site would be kept clean and free from hazards."

Grant Gellatly, of Amey Construction, was IT Business Manager of the year. He was responsible for choosing and overseeing the installation of a new information management system for 200 staff at M6JV, a joint venture between Amey, Sir Robert McAlpine, Taylor Woodrow and Barr building 28km of road between Central Scotland and the South.

The awards were co-sponsored by British Telecom, Asta Powerpoint and CIOB Financial Services Direct in association with the Financial Times and Construction Manager magazine.

CROSS-BORDER DEALS • by Jonathan Guthrie

Wider horizons and mixed results

Obtaining a foreign foothold by acquisition can prove a risky business

Entry costs at the bottom end of the construction business are low. All it takes is a hired cement mixer, some workers – usually employed on a casual basis – and a few pallets of bricks.

Capital is not a problem, since a loan can be raised on the security of future payments from the client that has awarded a contract.

The only real assets required are building expertise of a kind which is never in short supply, good local contacts and quick wits.

Nor does size necessarily unlock the economies of scale that give larger concerns a conclusive advantage in sectors such as manufacturing and retailing.

The result is that construction remains a highly fragmented business in which big companies are fighting a continual turf battle with smaller rivals able to whip business from under their noses by shaving a few pounds, marks or francs off the cost of erecting a building.

In Europe, construction companies have for the most part remained trapped in their local markets for reasons of culture, language and national differences in building specifications. This has impeded attempts by the more adventurous to win business elsewhere.

An apparent solution is to gain a foreign foothold through acquisitions. However this is a risky business. The real assets being bought are negligible, published accounts may provide few clues to future profitability and the market accessed will be unfamiliar and, most probably, fiercely cyclical.

The latter drawback became painfully apparent to Mowlem. The British builder, bought into East German construction just ahead of a bruising downturn earlier this decade, suffered serious losses, and following its withdrawal sees more scope for profits in home repairs and environmental services at home than in a brave new unified Europe.

However, the experience of cross-border acquirers has not been uniformly disappointing. Amec, another UK builder, bought a 42 per cent stake in Spie Batignolles, the French contractor specialising in electrical work, for £30m in February last year.

Spie has thrived despite the depressed state of French construction and contributed a welcome £5.6m to Amec's pre-tax profits of £22.6m in the first half of this year.

This was a period during which Amec's core building and civil engineering business made a loss of £1.1m on turnover of £577m.

Peter Mason, chief executive of Amec, says: "We bought the stake because we wanted to be in the forefront of European consolidation, rather than at the back end. Spie is very strong in capital rail projects, while Amec has a rail maintenance unit."

Amec's sally into cross-border investment followed the failure of a £360m hostile bid by Kvaerner, the Norwegian building, engineering and shipbuilding group, which retains a 26 per cent stake in the UK concern. Amec has an option to acquire the rest of Spie's shares in four years which it expects to exercise.

Skanska, the Swedish construction company, acquired an 7.6 per cent stake in Costain, the UK company, as a part of a restructuring of the troubled business last year.

Skanska has an option to raise its stake to 40 per cent in three years. Close collaboration between the groups suggests this will be exercised.

Hochtief of Germany has been tipped as a bidder for Bovis Construction, the building division of P&O, which is valued at up to £350m. Hochtief strenuously denies this.

In 1997 the group suffered the disappointment of a failed bid for a larger, underperforming rival, Philipp Holzmann, which became mired in anti-trust complications.

As a result Hochtief has cut its stake in Holzmann from 35 to below 20 per cent and is pursuing links with other partners.

A proposed merger at the top end of the Spanish construction market came to grief earlier this year. Banco Central Hispano, the banking group, tried to buy a 28 per cent stake in Fomento de Construcciones y Contratas, a big conglomerate with construction as its core business.

The purchase was seen as a prelude to the combination of FCC with Dragados, a builder in which BCH has a large shareholding.

In the event the shares, put on the market by Alicia Koplowitz, daughter of the founder, were bought by her sister Esther, herself a 26 per cent stakeholder. Esther, who is closely involved in the running of FCC wants to sell on the stake – though not, apparently, to BCH.

Both FCC and Dragados are seeking new partners as they unwind their collaborations, and neither is excluding an international link.

Unusually within Europe, Spain has seen considerable consolidation in its highly fragmented construction market over the past three years, with a rash of mergers involving smaller to medium-sized businesses.

Pedro González-Habba, director of the trade body Seopan, says the trend has received strong encouragement from a government eager for partners with the scale and financial muscle to participate in public-private infrastructure projects.

Infrastructure projects in a Europe spending heavily on improving transport links between countries can be too big for even large national operators to tackle alone.

According to some commentators, these groupings could be the bedrock on which genuine cross-border consolidation across the community will be based. If so, Amec and Spie are well ahead of the game.

PROFILE Poland

Builders in pole position

Construction cranes punctuating the urban Warsaw landscape point to a building boom fuelled by foreign direct investment in the Polish capital which is starting to spill out to the rest of the country.

This year alone has brought more than $5bn worth of foreign investment to Poland, generating demand for new industrial, office, retail and warehousing capacity.

Foreign investment, which had reached $20bn by the end of last year, began to grow in 1996 and helped to reverse the crisis which hit the construction industry three years before.

The slump led to the collapse of the old socialist building conglomerates. These have now been replaced by a leaner but diffuse building sector where no single company has more than 1 per cent of market share. Also, in contrast to the early 1990s when the state sector was still dominant, more than 90 per cent of the industry is now in private hands.

Henry Liszka, the head of Bovis' local subsidiary is happy to ride on the boom. He is confident the value of the contracts he has under management will grow next year by 25 per cent on this year's $ 135m.

"We are looking at contracts worth $200m a year between 1999 and 2003," he says, noting that his company has been pioneering construction management methods in Poland.

"Poles are wonderful engineers but they were never taught management," he says, adding that a new generation of local construction managers is moving into positions of responsibility.

Bovis is managing projects like the 42-storey Daewoo office building worth $80m which will be Warsaw's highest new building when it is completed next year. Office building, retail and industry are the sectors where the main activity is taking place.

This year Poland's overall building market will be worth an estimated 50bn zlotys, which marks an 18 per cent increase on 1997. Industrial projects alone are expected to be worth 7bn zlotys ($1.9bn) while retail schemes will provide 2.1bn zlotys.

One of the sectors which is not booming is housing, where needs are estimated at between 1.5m and 3.5m but a lack of financing means that homes built are in effect put up on a cash basis. Last year official figures show the completion of 65,000 homes, a fall from the 136,000 completed in 1990.

Krzysztof Samborski, marketing manager at Warbud, a successful construction company started in 1989, predicts that the number of homes now being built will fall further in two or three years time.

"That is when people will run out of money and accessible mortgage schemes will have to be put into place to keep the sector going", he says. Warbud is 70 per cent owned by Campenon Bernard SGE, of France, but this dominant share is likely to be diluted when Warbud is floated on the Warsaw bourse early next year.

Warbud, which had contracts worth 160m zlotys under construction last year compared with 60m in 1996, is concentrating on office building projects at present. But it is also developing capacity for building roads and bridges as its next field of activity.

"Four-fifths of Poland's bridges need to be refurbished," says Mr Samborski, implying that even if the country's long-awaited pay motorway building programme is delayed there will be enough renovation work to do.

This is the approach adopted by Ray Elliot, of Taywood Engineering, who is seeking to put techniques designed to arrest corrosion developed by Taylor Woodrow to work on Poland's road bridges. Taywood has already conducted European Union-funded research on the problem and is working with Poland's road and bridge construction institute to develop the market.

In contrast to this cautious approach adopted by British companies, foreign investors such as Hochtief and Bilfinger and Berger from Germany already own controlling stakes in local companies. Skanska, of Sweden, which has a good record in office building in Warsaw, and Austria's Ilbau, which took advantage of Austrian government credit guarantees to enter the Polish market, were earlier entrants.

As the mounting supply of new office space in Warsaw at least begins to depress office rents which have been at near to Paris and London levels so the construction industry will shift its focus to infrastructural as well as more retail and warehousing projects. Higher standards required by the European Union which Poland is now negotiating to join will means more work on environmental infrastructure.

But, at the same time as the economy moves away from manufacturing to services, refurbishment of old industrial plants for use as offices will continue.

Already swathes of industrial capacity in Warsaw, once the pride of Poland's socialist masters, now house banks and insurance groups. The Globe Trade Centre, the developers of Warsaw's Mokotow Business Park, are spending $200m on turning the old Cemi plant into an 130,000 sq m office complex.

In a sign of confidence in the future the individual buildings are being named after the planets and stars.

Chris Bobinski

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INFRASTRUCTURE • by Charles Batchelor

Opening road to modernisation

The EU is trying to knit together the transport networks of member states

European governments face a considerable challenge to upgrade their transport networks.

In the European Union the main task is to knit together previously separate national networks while in eastern and central Europe decades of neglect under Communism must be put right.

In western Europe the main road network has had to cope with an inexorable rise in traffic volumes while in the east increased disposable incomes have led to a sudden sharp rise in car ownership.

On the railways the problem has not been solely one of capacity because both eastern and western Europe have extensive networks. An equal challenge in the west has been to persuade hidebound national railway administrations to adapt to the demands of cross-border freight and passenger traffic.

In the east the railways must counter a sudden loss of business as hauliers shift to the roads and people acquire cars.

The inevitable problem confronting governments and transport planners has been a shortage of finance. The European Union has provided funds to kick-start its two main programmes, the Trans European Networks (TENs) initiative in the west and its Corridors programme in eastern Europe.

But large sums are still required from governments and from the private sector. Slow progress on several projects included in the original TENs programme in 1994 has prompted EU studies into public-private partnerships.

The European Commission has produced a set of recommendations including the need to involve the private sector at an early stage in project development, to remove bureaucratic barriers to the creation of ad hoc companies to manage projects, and to develop new, or apply existing, financial instruments to fund schemes.

Nevertheless, progress has been made in finding public-private solutions to schemes which failed to go ahead purely in the public sector. The Greek government made two unsuccessful attempts to build a replacement for the cramped Athens international airport in the 1980s.

Spata airport, a Ecu2.5bn project, is now being built by a company in which private partners, led by Hochtief, the German construction group, have a 45 per cent holding. The Greek government has the rest and has provided a guarantee for a European Investment Bank loan.

When the 30-year concession to operate the airport ends, ownership reverts to the government.

Athens airport forms part of the TENs initiative, though it is not one of the 14 high priority projects. These include the Oresund fixed road and rail link between Denmark and Sweden, the UK's main west coast rail line and the Lisbon-Valladolid motorway linking Portugal and Spain.

High-priority TENs schemes are expected to cost Ecu91bn (£54bn) with up to 10 per cent available from the EU in the form of viability studies, loan funds from the EU and cohesion fund money for Greece, Ireland, Portugal and Spain.

Three of the schemes – a rail link from Cork to Larne, the Oresund link and Malpensa airport in Milan – are nearly complete while funding has been arranged and work begun on six others.

These include the UK west coast line, a network of Greek motorways to the Bulgarian and Turkish borders and the Betuwe rail freight line in the Netherlands.

But finance for five other projects, including two rail lines requiring Alpine tunnels, remains uncertain. In part this reflects an overall shortage of funds but it is also a result of unrealistic forecasts of their complexity and the time required.

The commission has proposed doubling the EU contribution to Ecu5bn for the next phase.

Undeterred by the slow progress of some of the TENs projects, the EU is working on plans for an equally ambitious project in eastern Europe involving the creation of 10 key transport corridors.

These would provide upgraded road, rail and waterborne links from the Baltic states to the Aegean and from the Polish-German border to Moscow.

Corridor 1 involves a 1,000 km road and rail route from Helsinki to Warsaw with a branch from Riga to Danzig. Bypasses will be built around several towns while the railway crossing on the Polish-Lithuanian border will be upgraded.

The cost of construction in eastern Europe is usually lower than in the west but the relatively low incomes mean it is difficult to charge very much for using motorways or trains.

This places a heavier burden on public sources of finance and means governments may have to provide two-thirds of the total funding requirement of up to Ecu90bn.

PRIVATISATION • by Nicholas Timmins

Building on a more solid base

The private finance initiative is providing a boost to the UK industry

The UK construction industry is enjoying a good year with profits, largely, on the increase.

The private finance initiative (PFI), a small but growing part of most contractors' portfolios, has begun to develop a flow of projects.

Since Labour took power in May, 1997, about £4bn of deals, many involving construction, have been signed. Treasury ministers argue that, leaving aside the rescued Channel Tunnel rail link, this figure matches the amount delivered by the Conservatives in the previous five years.

Nevertheless, a number of contractors has gone into receivership and the outlook is less rosy for many, with business starting to slow. As economists debate whether the UK will undergo a hard or soft landing during any recession, contractors are trying to assess the impact of the Asian crisis.

The shape of the industry is also changing, driven in part by the private finance initiative, which is altering traditional relationships between the public and private sector. This, in turn, is driving changes between construction companies and their private clients.

Two themes are evident. One is an increasing Europeanisation of the industry as UK constructors form links with big mainland European contractors.

The other is the slow but steady expansion of building companies into facilities management – changing the industry from one which built and walked away, to one which has a much longer-term stake in the projects it constructs.

Jennie Price, of the Major Contractors Group, argues that the Europeanisation of the industry can be overstated. Plenty of big UK builders remain and much construction still requires contractors who understand the local market. She believes it is unlikely the industry will be dominated at the top end by a few international companies.

But relatively recent link-ups include HBG acquiring Higgs & Hill's construction division, the Norwegian-based Kvaerner taking over Trafalgar House and Trollope & Colls and acquiring a stake in Amec, Skanska's stake in Costain, Ballast Needham's takeover of Wiltshier and Amec's 42 per cent stake in the French electrical contractor and civil engineer, Spie-Batignolles.

The need for size in order to handle big contracts has, in part, driven that. But so has the private finance initiative in which construction companies, usually in links with facilities managers, banks and a range of other companies which vary by project, join together to design, finance, build and operate anything from a road or bridge to the Channel tunnel rail link.

After years of steady shrinkage in public sector capital spending, the revival of publicly-sponsored but privately-financed projects, underwritten by local or central government payments over 25 or 30 years, has attracted European interest.

Nigel Shilton, of Arthur Andersen Real Estate Consulting, says: "While PFI is certainly not the only reason that foreign contractors are seeking a foothold in the UK, it cannot be denied that it has provided the catalyst the foreign contractors were looking for."

Kvaerner, for example, recently won the contract to rebuild Greenwich Hospital; the Dutch-owned Ballast Wiltshier won the first big schools contract in Falkirk and the King's-Guy's-St Thomas medical school went to Bouygues, of France.

At the same time growing numbers of the big UK contractors are building up their facilities management arms to take a long-term stake in PFI projects. The key change is that the old separations between constructing and providing services are disappearing as the public sector looks to PFI projects to provide a service over a period of decades.

Among the more dramatic examples is Jarvis, which is rapidly becoming as much a facilities manager as a constructor, having won the bid for the first privately financed school building in the UK. The company followed that with a string of student accommodation projects in higher education.

John Laing has joined with the multi-utility Hyder to put all of their accommodation-related projects into a specialist PFI company.

The key to making these projects work is recognising that the purchasers and suppliers are locked into a partnership. Sir Martin Laing, chairman of John Laing, recently argued that to thrive the construction industry needed to reflect interdependence in a much more partnership-based relationship with clients.

For too long, he says, the industry has relied on fixed-price contracts with thin margins and an adversarial relationship with clients.

The way PFI deals are structured pressurises public sector clients to be clear about the outcomes they want from their contracts – in other words the service – and not change designs or requirements part way through. It equally applies pressure to the contractor to build for a lifetime, and deliver on time and budget in order to get paid.

COMMERCIAL PROPERTY • by David Lawson

Watchword is caution

Developers in Europe are now matching the supply to each individual market

This was the year when real estate markets were set to boom across Europe as economic growth and the anticipated strength of a single currency kicked in. But property is no longer a boom and bust sector.

Investors nursing recession-burnt fingers now show far more caution in commissioning builders before they have found an occupier. Developers are doing what they should always have done – matching supply to each individual market.

That means tower cranes have risen over office centres like London, Paris and Brussels while elsewhere they have remained absent,according to property consultant Knight Frank.

The UK is the furthest into the development cycle. Central London has seen office construction rise above 8m sq ft, which is beginning to worry some observers fearing the impact of Asia, Russia and Latin America on the financial markets.

Property consultant CB Hillier Parker is sanguine, pointing out that supply is well below boom levels. Most new space is pre-let and demand far exceeds output.

Canary Wharf's owners are convinced enough to commission another giant office block every time one is let. Renovation could play a bigger role in future, however, as a flood of older space is released.

Paris is almost a mirror image of London. The strong French economy, tax reforms, low interest rates and an influx of US investors have fuelled a surge of building and renovation, says Jones Lang Wootton.

Goldman Sachs, for instance, paid Crédit Lyonnais a reported Fr350m and will spend another Fr500m developing 13,000sq metres on one central site. La Defense will carry out both new building and renovation after investment deals in the past year.

Other hot spots reflect similar local shortages rather than macroeconomic cycles. Prague is seeing a rash of developments driven by private overseas investors and a take-up which doubled in the first half of this year.

Brussels has responded to falling vacancy rates with a spate of speculative developments, says consultant Healey & Baker. Madrid is more circumspect, with developers ready to exploit supply shortages but not to start without pre-lets.

Amsterdam is in the same position, although planning regulations rather than lack of confidence keep builders off site until offices are let.

Regulation has also been a crucial factor in retailing, with governments taking fright in most countries at the proliferation of regional malls. Schemes near Manchester and at the London end of the Eurotunnel rail link are unlikely to be repeated elsewhere.

France has also tightened planning restrictions, but JLW points out that almost 600,000 sq m of development squeezed through the system last year.

Central Europe is on the upward slope, benefitting from the release from restrictive political regimes.

The Czech economy is only just recovering from last year's crisis and may yet face economic fall-out from Russia, but foreign retailers and investors are scrambling to build a string of centres based around hypermarkets.

Hungary is seeing similar pressure, with retailing and leisure - particularly multiplex cinemas crowding into an enthusiastic new market.

Less developed economies of western Europe such as Spain, Portugal and Ireland are also feeling the effect.

Jeremy Lewis, head of the Schroder Europe property fund, saw a gap in northern Italy, a rich region poorly served by retailers. Now he is watching income soar from five shopping centres bought early in the cycle.

But he is sceptical about any rise in the tempo of development towards levels of the turn of the decade.

David Simons, of Slough Estates, one of Europe's biggest developer investors, agrees that these hot spots have not ignited a surge of activity across the continent.

"Building prices are not rising, and that is a sure sign that activity is restrained," he says.

Neither is too concerned, as restricted development helps to maintain investment values.

JLW sees most European markets on an up-cycle. They are attractive to US investors, particularly the cash-rich real estate investment trusts.

They are also following the bidding of large customers seeking new premises inside the single European market. Security Capital, for instance, has paid millions of dollars for small UK companies such as Akeler and Kingspark with instructions to scour Europe for sites.

The crucial factor for growth, however, is how economic problems elsewhere affect recovery.

ENVIRONMENT • by Vanessa Houlder

Unexpected opportunities

Opportunities exist in cleaning up the east but firms are discriminating

Improving the environment of eastern Europe is a slow and expensive process. But it may offer significant opportunities for construction companies – as long as they have capital, a selective approach and resilience in the face of the region's economic uncertainties.

In the early years of eastern Europe's transition to a market economy, the environment appeared to be one of the clearest beneficiaries. The closure of old, inefficient factories and power plants sharply reduced the levels of many pollutants by as much as 40 per cent.

But those early gains provide little ground for complacency. Ill health caused by air pollution is rising in the former Soviet Union, although it is falling in central and eastern Europe.

In countries where economic growth has resumed, increasing use of cars has brought new environmental pressures. Moreover, hope of accession to the European Union has created a need to meet EU regulations.

Areas which need most attention are:

- Waste management. Shifts to western-style consumption are intensifying the already severe pressure on municipal waste management capacity. The European Environment Agency, an EU organisation, argues that priorities include improving municipal waste management through better separation of wastes and better landfill management, the introduction of recycling initiatives at local level and carrying out low-cost mitigation and containment at priority disposal sites.
- Contaminated sites. More than 300,000 potentially contaminated sites have been identified in western Europe and the estimated total in the east is much greater. Soil contamination around abandoned military bases poses the most serious risk. Many countries have yet to develop the regulatory and financial framework needed for solving the problem.
- Pollution control. Charges and stricter environmental regulations will direct private investment towards more efficient and less polluting technology. This will, however, take around 20 years because the countries of central and eastern Europe cannot afford to replace capital stock in a shorter period.
- Water. Use is more wasteful in central and eastern than in western Europe, partly because it is underpriced, and in a number of countries it is frequently in short supply.

Standards of treatment for drinking water also tend to be lower than in western Europe. If inadequate supply and patchy treatment persist, increasing amounts of investment may be required to ensure the availability of acceptable drinking water.

Many large enterprises once pre-treated the waste-water they discharged. Now, as these organisations are split up and privatised, there is a risk that increasing amounts of industrial discharges, such as heavy metals and chemicals, will flow directly into municipal sewers not equipped to handle them.

Just part of this business would amount to significant work for the construction industry. A report for Europe's environment ministers published in June estimated the 10 countries waiting to join the union need to spend about Ecu120bn to comply with EU directives.

Funding environmental improvements on this scale is clearly impractical.

Taxes and fines from national polluters account for 20 per cent of environmental spending in several central and eastern European countries.

Western financial support for environmental investments in eastern Europe has actually declined since 1994. Environmental loans from international financial institutions to central and eastern European countries fell sharply.

Even so, investing alongside funds provided by the EU or other western institutions is the way forward, says Alastair Fulton of Environment Resources Management, a consultancy. "What is driving environmental construction forward are structural funds and cohesion funds," he says.

Construction companies are tending to prosper in countries where they have historic links, he adds, although companies mostly try to reach partnership agreements with local companies. Scandinavian and German companies are particularly well placed.

But, although foreign direct investment in environmental projects has grown rapidly in recent years, companies are highly selective about where they invest. Nearly three-quarters of all investment has gone to just five countries – the Czech Republic, Hungary, Kazakhstan, Poland and Russia.

Foreign companies are likely to become more, not less, discriminating. If the economic problems affecting the region continue, the shortlist of countries targeted by western companies for environmental improvements may get even shorter.

Long bond jumps after Fed easing

GOVERNMENT BONDS

By John Labate in New York and Khozem Merchant in London

US Treasuries were mixed soon after the Federal Open Market Committee's decision to lower the Federal Funds rate by 25 basis points to 5.25 per cent. The 30-year bond, the benchmark for long-term interest rates, jumped ½ to 105[illegible], sending the yield down to 5.112 per cent.

Shorter-term notes did not do as well. The 10-year note was unchanged at 107¾, yielding 4.591 per cent. The two-year note was down ⅛ to 100⅛, yielding 4.45 per cent.

The fall in the Fed funds rate was widely expected in the stock and bond markets, coming after Federal Reserve chairman Alan Greenspan's testimony to Congress last week. Many in the market, however, had expected a more aggressive move. "The general assumption is that the next move will come at the November meeting," said Kevin Logan, senior market economist at Dresdner, Kleinwort Benson in New York.

The cut was seen as important in stabilising global investment and helping overseas economies. While the US economy remains strong, recent cuts in credit availability, as well as problems at large financial institutions, are seen as a threat to future growth.

GERMAN BUNDS closed slightly higher awaiting news from the US. German interest rates will come under the spotlight tomorrow when the Bundesbank council meets, but a hint that it would not adjust German rates came when Jürgen Stark, a vice-president, said there was no justification for a relaxation of monetary policy in core euro zone countries.

The December bund future settled at 113.73, up 0.12, with just 247,000 contracts changing hands in quiet trading on Eurex. In the cash market, the yield on the 10-year bund was 3.95 per cent.

UK GILTS, extremely sensitive to sentiment on interest rates ahead of next week's meeting of the Bank of England's monetary policy committee, fell in quiet trading while sterling strengthened. The catalyst for both was evidence of continued robust consumer spending, which weakens the case for a cut in rates.

The figures showed consumers borrowed an additional £1.4bn in August, higher than most observers had expected.

Neil Parker, treasury economist at Royal Bank of Scotland, said the data "may add some ammunition to the hawks' case for leaving rates on hold" at next week's meeting.

"Consumers are clearly financing consumption with debt, which raises questions about the timetable for interest rate cuts," said Joanne Collins at Daiwa Europe.

The December gilt future settled at 115.36, down 0.18, on turnover of 46,000 contracts on Liffe. In the cash market, the yield on benchmark 10-year gilts was 4.97 per cent, with the yield spread between gilts and bunds widening to 105 basis points.

Dutch to exchange short-dated DSLs

The Dutch State Treasury Agency, which oversees the operations of the country's government bond (DSL) market, is to exchange some illiquid short-dated DSLs for a single issue of 30-year bonds on October 13, reports Vincent Boland.

The move, which the agency said might be repeated, will sharply increase the liquidity of 30-year Dutch bonds and is part of a policy to consolidate the DSL market into a limited number of benchmark bonds in the run-up to European monetary union.

Four short-dated issues redeemable between January 15 and August 1 2000, and one issue redeemable on January 15 2007, will be eliminated and holders will be given longer-dated paper by reopening the existing January 15 2028 bond issue.

The exchange affects bonds with a nominal value of some Fl 14.55bn.

The 30-year bonds can be stripped and delivered into a Matif-listed futures contract combining German bunds, French OATs and DSLs. The agency said the increase in the amount of 30-year bonds in issue because of the swap would "strengthen the position of DSLs in these kinds of futures contracts".

Austria makes FFr3bn offer

INTERNATIONAL BONDS

By Vincent Boland

The Republic of Austria issued FFr3bn of seven-year bonds priced to yield 17 basis points over the French government bond curve in what Morgan Stanley Dean Witter, lead manager, said was an investor-led transaction.

The seven-year part of the OAT curve is the most expensive, with comparable OATs carrying high coupons and trading at substantial premiums. Some bankers said the 17-basis point spread would compare with 4 basis points over comparable German bunds, but there was demand for French franc exposure without the full OAT premium.

The issue attracted French as well as German, Italian and Benelux region investors. "We had a substantial number of buyers going into the deal," a banker said.

The REPUBLIC OF ITALY took the view that long-term bond yields would move upwards after European monetary union while short-term interest rates would fall. It launched a E300m issue of 20-year bonds targeted at mutual funds and insurance companies prepared to take that stance.

"We expect that after the euphoria of monetary union there will be a readjustment of long-term yields. This issue was aimed at those that believe long-term yields will rebound," said a banker at Banca Commerciale Italiana in Milan, joint lead manager with Caboto and J.P. Morgan.

The HELLENIC REPUBLIC priced its E500m issue of privatisation certificates at Libor less 10 basis points, to yield 3.89 per cent to redemption. A banker at Paribas, joint lead with EFG Eurobank and National Bank of Greece, said the issue attracted broad demand.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
STERLING							
World Bank	75(a)	7.00	10[illegible].141R	Jun 2002	0.20R	-	ABN Amro
EIB	200(b)	6.00	106.039R	Dec 2028	0.45R	+98(6%Dec28)	Goldman Sachs
FRENCH FRANCS							
Republic of Austria	3bn	3.90	99.40	Oct 2005	0.30	+17(l)	Morgan Stanley SA
SWISS FRANCS							
Royal Bank of Canada‡	150	(c)	100.05	Apr 2000	0.05	-	CSFB
AUSTRALIAN DOLLARS							
National Australia Bank	100	5.00	100.775	Oct 2001	1.375	+49(Nov01)	TD Securities
ITALIAN LIRE							
Council of Europe	100bn	(d)	99.90R	Oct 2018	2.00R	-	MSDW
EUROS(e)							
Hellenic Republic(f)	500	3.0	98.00R	Oct 2003	0.60R	-	EFG Eurob/NBG/Paribas
Republic of Italy	300	(g)	99.85R	Oct 2018	0.425R	-	BCI/Caboto/JP Morgan

Final terms; non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with 750m. Plus 118 days accrued. b) Fungible with £1bn. Plus 91 days accrued. c) 3-mth Libor flat. Re-opening clause, first coupon fixing on 26/10/98. d) 10.5% in yr 1, 6% in yr 2, 4.5% in yrs 3-7, then 9% minus 12 month libor. e) Payments in Ecu prior to Emu. f) Privatisation Certificates. g) Tec-10 with participation of 66% and floor of 3% annual effective rate. l) Over interpolated yield.

Asset-backed formula key to success for Ecclestone

The entrepreneur's Formula One bond is a first for securitisation

By Patrick Harverson and Vincent Boland

Bernie Ecclestone: unique sale

Such is Bernie Ecclestone's reputation as an entrepreneur, that when his Formula One company announced plans for a $2bn Eurobond issue on Monday it was difficult to believe the money would not be going into new sporting ventures outside motor racing.

Instead, Formula One has said the money will go into the Ecclestone family trust.

In spite of this assertion there has been plenty of speculation about what Mr Ecclestone might do with the funds. Several reports suggested the money was a war chest to help him back the breakaway European football super league being planned by Media Partners, an Italian sports marketing company.

However, while Mr Ecclestone has had some limited contact with the company in recent months, its representatives have played down talk of the racing promoter becoming heavily involved in the project, either as a financial backer or a broadcasting partner.

Another suggestion was that Mr Ecclestone might use some of the money to buy a top football club.

This month his name was briefly linked to Manchester United, which has agreed a takeover by satellite broadcaster BSkyB, but the prospect of a 66-year-old businessman who has spent his entire life in motor racing wanting to become involved in football at this stage of his career seems unlikely.

Also, people who know Mr Ecclestone point out that he has recently become more involved in promoting other categories of motor racing, such as Le Mans-type GT cars and world championship rallying. With running Formula One already a full-time business, it is hard to see how he could devote his energies to a new sport.

Anyway, speculation about what Mr Ecclestone might do with $2bn is moot, say his advisers, because the money is not his to spend.

"Ecclestone has no claim on that money," said a spokesman yesterday. "Once he's given it away, he has no jurisdiction over the trust or the trustees."

Cynics were quick to point out there was always the possibility that the trustees, whom Formula One will not name, could invest some of the $2bn from the bonds in new business ventures involving Mr Ecclestone.

For example, he still has ambitions to develop his digital television interests further, and this is where some believe he could help the European super league, which will rely heavily on digital broadcasting.

As for the bond issue itself, its timing looks unfortunate because it coincides with a sharp downturn in the international corporate bond market.

The Formula One bond issue is expected to be rated single-A, and evidence from recent weeks suggests investors want to buy only bonds rated AAA or AA, and there has been a notable drop in the issuance of bonds rated below that level.

However, bankers suggest securitisation issues such as the Formula One bonds, which are backed by the future revenues from the racing business, have been relatively unscathed by the bond market turmoil because of the asset-backed structure involved in these transactions.

Bankers at Morgan Stanley Dean Witter, which put together the deal for Mr Ecclestone and has replaced Salomon Smith Barney as his main bank, said they were confident a tentative recovery in global corporate bond markets in recent days would allow the issue to succeed.

They certainly have something unique to sell. This week syndicate members were hard pressed to come up with a comparable borrower to Formula One.

Its bonds are believed to be the first large issue to be backed by revenues from live sports broadcasting, and the deal's complex structure may put off some potential investors. However, if the company succeeds in raising its target of $2bn it will create a benchmark issue that will be highly liquid.

Bankers said it was too early to indicate what price the bonds would be issued at, but one said: "I would expect it to trade at a fairly large premium to standard asset-backed securitisation deals because of the way it's being structured."

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Sep 29	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.6480	4.80	+0.01	-0.27	-1.33	-0.08
	08/06	8.750	127.4828	5.16	+0.03	-0.16	-0.84	-0.91
Austria	07/00	5.875	103.8900	3.58	-0.01	-0.16	-0.18	-0.78
	01/08	5.000	105.7700	4.23	-0.02	-	-0.25	-1.36
Belgium	01/00	4.000	100.5400	3.66	+0.03	-0.09	-0.13	-0.58
	03/08	5.750	111.4500	4.25	-0.02	-	-0.26	-1.39
Canada	03/00	5.000	100.1100	4.92	-	-0.26	-0.81	+0.66
	06/08	6.000	107.1200	5.06	+0.01	-0.06	-0.64	-0.88
Denmark	11/00	9.000	108.9700	4.44	-0.10	-0.49	-0.06	-0.19
	11/07	7.000	116.9200	4.67	-0.06	-0.18	-0.17	-1.35
Finland	01/99	11.000	102.1017	[illegible]	-0.01	-0.09	-0.29	-1.06
	04/08	6.000	112.5740	[illegible]	-0.01	-0.01	-0.24	-1.39
France	01/00	4.000	100.6100	3.49	+0.02	-0.09	-0.11	-0.65
	04/05	7.500	121.2720	3.77	-0.03	-0.04	-0.26	-1.40
	04/08	5.250	109.0900	4.05	-0.01	-	-0.22	-1.43
	04/28	5.500	107.9600	4.95	-0.02	+0.15	-0.04	-1.17
Germany	03/00	4.000	100.8300	3.39	-0.02	-0.08	+0.03	-0.80
	10/05	6.500	115.2900	3.96	-0.01	+0.01	-0.16	-1.25
	01/08	5.250	108.5200	4.00	-0.02	+0.03	-0.19	-1.55
	01/28	5.625	110.4100	4.94	-0.02	+0.15	-0.06	-1.25
Ireland	10/01	6.500	107.5800	3.82	-	-0.10	-0.47	-1.62
	08/08	6.000	113.2800	4.32	-0.01	-0.01	-0.27	-1.66
Italy	04/01	4.600	101.5900	3.82	+0.01	-0.07	-0.31	-1.61
	06/03	4.750	103.1700	3.99	+0.01	-0.07	-0.32	-1.83
	05/08	5.000	104.6700	4.39	+0.01	+0.04	-0.20	-1.74
	11/27	6.500	118.2800	5.26	+0.01	+0.06	-0.09	-1.44
Japan	03/00	6.400	108.6900	0.28	-	-0.01	-0.13	-0.18
	06/03	4.500	117.7700	0.69	-	+0.01	-0.18	-0.71
	09/05	3.000	115.1200	0.75	+0.02	-0.04	-0.37	-1.17
	03/18	2.700	121.6500	1.42	+0.01	-0.09	-0.63	-1.36
Netherlands	05/00	9.000	108.4100	3.51	-0.01	-0.08	-0.10	-0.89
	07/08	5.250	109.2300	4.08	-0.03	-0.02	-0.28	-1.43
New Zealand	02/01	8.000	105.0261	5.64	-0.13	-0.33	-1.01	-1.15
	11/06	8.000	114.4983	5.74	-0.05	-0.19	-0.74	-0.85
Norway	01/99	9.000	100.2600	7.70	-0.09	-0.11	-0.11	+3.35
	01/07	6.750	108.9000	5.36	-0.06	-0.16	-0.60	-0.44
Portugal	03/00	5.375	102.4900	3.58	+0.04	-	-0.23	-1.34
	06/08	5.375	107.6500	4.39	+0.01	-0.05	-0.23	-1.61
Spain	04/00	0.750	104.5900	3.58	-0.02	-0.08	-0.24	-1.16
	01/08	6.000	112.1600	4.38	-0.01	+0.01	-0.28	-1.54
Sweden	05/00	10.250	108.8750	4.29	-0.02	-0.06	-0.72	-0.50
	05/08	6.500	112.7090	4.81	-0.03	-0.02	-0.08	-1.36
Switzerland	03/00	5.000	104.9000	1.51	-0.02	-0.05	-0.29	-0.17
	06/07	4.500	113.6700	2.71	-0.01	-0.01	+0.13	-0.83
UK	11/01	7.000	104.1250	5.53	+0.04	-0.10	-0.48	-1.24
	12/03	6.500	106.1875	5.12	+0.03	-0.12	-0.43	-1.33
	12/07	7.250	117.0313	4.92	+0.02	-0.04	-0.37	-1.54
	12/28	6.000	123.2813	4.57	+0.03	-0.13	-0.51	-2.01
US	05/00	5.500	101.4397	4.58	+0.02	-0.19	-0.42	-1.23
	05/03	5.500	104.0268	4.51	+0.03	-0.16	-0.51	-1.56
	05/08	5.625	107.6348	4.61	+0.02	-0.11	-0.47	-1.48
	11/27	6.125	112.4862	5.38	-0.01	+0.01	-0.16	-1.10
ECU	07/00	4.000	100.6800	3.60	+0.03	-0.09	-0.22	-0.93
	04/08	5.250	108.0000	4.14	-0.01	+0.01	-0.21	-1.60

London closing. *New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Sep 29	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	[illegible]	+1.24	+0.54	New Zealand	5.74	+1.83	+1.13
Austria	4.20	+0.29	-0.41	Norway	5.36	+1.45	+0.75
Belgium	4.28	+0.37	-0.33	Portugal	4.38	+0.47	-0.23
Canada	5.06	+1.15	+0.45	Spain	4.46	+0.55	-0.15
Denmark	[illegible]	+0.74	+0.04	Sweden	4.83	+0.92	[illegible]
Finland	4.37	+0.46	-0.24	Switzerland	2.91	-1.00	-1.70
France	4.10	+0.19	-0.51	UK	4.96	+1.05	+0.35
Germany	[illegible]	-	-0.70	US	[illegible]	[illegible]	-
Ireland	4.33	+0.42	-0.28	ECU	4.17	+0.26	-0.44
Italy	4.46	+0.55	-0.15				
Japan	[illegible]	-3.06	-3.76				
Netherlands	4.09	+0.18	-0.52				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Sep 29	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yld	Sprd v US
EUROPE								
Croatia	02/02	7.000	BBB-	91.5711	9.84	+0.20	-0.63	+3.82
Poland	07/04	7.125	BBB-	100.9475	6.91	-0.11	-1.85	+2.45
Russia	06/07	10.000	CCC-	23.5000	46.35	+1.21	+46.35	+41.78
LATIN AMERICA								
Argentina	09/27	9.750	BB	83.5000	11.77	+0.40	-3.71	+6.86
Brazil	06/27	10.125	B+	84.0000	15.92	+0.04	-2.24	+10.81
Mexico	05/26	11.500	BB	101.0000	11.38	-0.06	-2.36	+6.29
ASIA								
China	07/06	7.750	BBB+	95.1660	8.62	-0.03	-2.16	+4.49
Philippines	10/16	8.750	BB+	73.0890	12.57	+0.27	+0.75	+7.73
Thailand	04/07	7.750	BBB-	79.4788	11.60	+0.03	-1.85	+7.03
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.5536	7.52	+0.20	-2.76	+2.67
South Africa	10/06	8.375	BB+	80.5645	12.31	+1.19	+0.38	+7.78
Turkey	06/07	10.000	B	82.2500	13.53	+0.17	-1.53	+8.96
BRADY BONDS								
Argentina	03/23	5.750	BB	68.2500	9.30	+0.25	-1.43	+4.29
Brazil	04/14	5.000	B+	62.7500	12.11	+0.11	-0.40	+4.34
Mexico	12/19	6.250	BB	75.1166	8.87	-0.07	-2.27	+3.68
Venezuela	03/20	6.750	B+	66.6250	10.76	-0.07	-2.03	+5.83

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.18	110.20	+0.02	110.32	110.11	67,020	105,530

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
103	7.20	7.20	-	-	-	-
104	6.20	6.20	-	-	-	0.01
105	5.20	5.20	-	-	-	0.02
106	4.20	4.23	-	-	0.01	0.05

Est. vol. total, Calls 1,516 Puts 3,987. Previous day's open int., Calls 28,301 Puts 41,097.

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.67	113.68	+0.03	113.67	113.62	97	6211
Mar		114.23	+0.15			0	0

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.62	113.73	+0.10	113.75	113.51	247,656	627,148
Mar	114.16	114.31	+0.09	114.30	114.13	2,446	12,376

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
11350	0.81	1.13	1.67	0.68	1.00	0.94
11400	0.57	0.89	1.39	0.94	[illegible]	1.18
11450	0.39	0.69	1.14	1.26	1.56	1.41

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5706 Puts 4840

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.22	108.21	-0.03	108.31	108.13	107,781	268,513
Mar	-	107.84	-	-	-	126	2,628

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.18	111.19	-0.04	111.30	111.10	23308	85605
Mar		111.28	-0.04			0	10

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Nov	Calls Dec	Puts Nov	Puts Dec
11100	0.54	0.80	0.35	0.71
11150	0.30	0.57	0.61	0.98
11200	0.15	0.48	0.96	1.28

Est. vol. total, Calls 24 Puts 34. Previous day's open int., Calls 125 Puts 3326

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	114.90	115.03	+0.14	115.12	114.85	63,252	111,620
Mar		114.48					

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		107.35	-0.10			0	1074
Mar		107.40	-0.10			0	0

NOTIONAL UK GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	115.50	115.36	-0.18	115.65	115.21	46572	145634
Mar		115.06	-0.18			0	0

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
11500	1.10	1.54	1.93	0.74	1.18	1.24
11550	0.85	1.31	1.53	0.99	1.45	1.47
11600	0.64	1.13	1.39	1.28	1.77	1.73

Est. vol. total, Calls 2800 Puts 655. Previous day's open int., Calls 41140 Puts 34559

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	129-20	129-16	-0-01	129-22	128-14	519,755	709,809
Mar	128-08	125-05	-	129-03	129-03	3,420	72,651
Jun	128-22	128-22	+0-02	128-22	128-22	80	737

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	138.45	138.43		138.53	138.45	601	n/a
Mar	137.74	137.74		137.74	137.74	2	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	108.22	-0.08	-	-	0	0

US CORPORATE BONDS

Sep 29	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	106.4235	5.33	+0.01	-0.48	+0.94
NY Tel	06/03	7.00	A+	102.6235	6.72	+0.10	-0.25	+2.33
CWE	05/08	8.00	BBB	116.4381	5.87	+0.01	-0.42	+1.28
FINANCIALS								
GECC	05/07	8.75	AAA	122.8910	5.38	+0.02	-0.68	+0.79
Banc One	08/02	7.25	A+	106.4788	5.35	-	-0.50	+0.98
Media One	01/07	7.30	BBB	108.2516	6.01	+0.01	-0.46	+1.42
INDUSTRIALS								
WMX Tech	04/99	8.25	BBB+	100.3281	5.57	+0.07	-0.40	+1.25
Wal Mart	05/02	8.75	AA	106.1072	4.88	-	-0.58	+0.49
Dayton Hud	06/21	9.70	BBB+	135.4900	6.64	+0.04	-0.18	+1.50
AGENCIES								
FHLMC	04/07	7.14	N/A	113.4664	5.18	+0.01	-0.30	+0.67
SLMA	03/00	7.50	N/A	103.5726	4.89	+0.01	-0.37	+0.46
FNMA	02/18	6.95	N/A	137.1658	5.74	+0.04	-0.08	+0.60
FFCB	09/06	8.95	N/A	123.8169	5.15	+0.02	-0.28	+0.56
HIGH YIELD								
Stone Cont.	02/01	9.88	B	94.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	101.0000	0.00	-	-	-
Pacalta	06/04	10.75	B-	87.5000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	4.48
Broker loan rate	7¼	Two month	-	Three year	4.40
Fed.funds	5½	Three month	4.44	Five year	4.41
Fed.funds at intervention	-	Six month	4.65	10-year	4.61
		One year	4.53	30-year	5.14

INTERNATIONAL BONDS

Sep 29	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	110.7200	4.20	-0.02	-0.31	+0.15
[illegible]	01/07	5.750	AA	110.0700	4.27	-0.02	-0.17	+0.22
Philip Morris	03/04	5.375	A	103.8700	4.55	-	-0.31	+0.73
Finland FRN	09/02	3.531	AA	100.6599	3.11	-	-0.17	-0.51
EURO FFR								
Austria	01/04	5.500	AAA	107.6800	[illegible]	-0.04	-0.18	+0.15
Abbey Nat	02/04	6.000	AA	[illegible]	4.02	-0.02	-0.18	+0.31
Cred Foncier	02/04	9.125	A	123.1300	4.22	-0.02	-0.23	+0.51
3CIF FRN	12/01	3.617	AA-	99.9467	3.49	-	-0.11	-0.11
EURO LIRA								
EIB	02/07	7.000	AAA	118.5300	4.31	-0.02	-0.32	-0.07
Abbey Nat	02/02	6.800	AA	108.5000	4.05	-	-0.27	+0.10
Walt Disney	08/00	8.625	A	106.7000	[illegible]	+0.17	+0.15	+0.56
EIB FRN	03/01	4.743	AAA	100.1203	[illegible]	[illegible]	-0.33	-0.20
EURO £								
EIB	12/07	7.625	AAA	112.8800	5.77	+0.04	-0.11	+0.84
Dresdner Bk	12/07	7.750	AA-	107.2040	6.67	-	+0.42	+1.74
British Gas	03/00	7.625	A+	101.2838	6.65	+0.05	-0.32	+0.89
Abbey Nat FRN	02/02	7.900	AA	100.1145	5.29	+0.02	-0.50	[illegible]
EURO $								
EIB	04/07	7.250	AAA	[illegible]	5.23	+0.03	-0.50	+0.68
ABN Amro	06/07	7.125	AA-	108.7535	5.81	+0.02	-0.10	+1.24
Quebec	01/07	7.000	A+	108.9285	5.84	+0.02	-0.10	+1.07
Citicorp FRN	02/04	5.750	A+	100.8038	5.39	[illegible]	+0.20	+0.93
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.7237	5.47	-	-0.94	+0.14
Toronto	05/04	8.500	AA+	114.6025	5.42	-	-0.91	+0.09
Bell Canada	07/99	10.625	A+	103.9357	5.29	-	-1.19	[illegible]
Deutsche B FRN	09/02	5.875	AA+	101.1343	5.38	+0.03	-0.52	+0.34
EURO YEN								
World Bank	03/02	5.250	AAA	[illegible]	0.68	-	-0.14	[illegible]
Spain	03/02	5.750	AA	[illegible]	0.57	-	-0.12	-0.04
Cred Foncier	06/02	4.750	A	113.9372	1.04	-	-0.14	+0.43
Italy FRN	07/99	0.727	AA	[illegible]	0.01	-	-0.10	-0.26

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information.

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Dollar volatile after Fed decision

MARKETS REPORT

By Richard Adams and Andrew Balls

The US Federal Reserve's decision yesterday to make a small cut in the Fed Funds interest rate left the foreign exchange market disappointed.

The market had priced in a cut by as much as half of one percentage point, based on short-dated interest rate future contracts. But the Fed's decision to cut the official rate by just 0.25 percentage points, and to leave the discount rate untouched, caused the dollar to gyrate wildly as traders weighed up the options.

In a statement, the central bank's open markets committee said: "The action was taken to cushion the effects on prospective economic growth in the United States, of increasing weakness in foreign economies, and of less accommodative financial conditions domestically." It was the first time the Fed had cut rates since January 1996.

Marc Chandler, foreign exchange analyst at Deutsche Bank Securities in New York, said: "In March 1997, when the Fed last raised rates, they said it was cautionary tap on the brake. This was a cautionary tap on the accelerator.

"This will not be enough to satisfy the markets. Many people think the Fed is falling behind the deflation curve."

But Avinash Persaud, head of currency research at J.P. Morgan in London, said the decision not to move the discount rate was an warning to the markets.

"It is very important that the discount rate was not cut – that would have sent a signal that the Fed was erring on the side of further cuts to come," Mr Persaud said.

"The Fed is signalling that it is concerned about the international economy. But speculation has been subdued by keeping the discount rate unchanged."

"A 25 basis point cut was the most likely size of the move, given the US Fed is walking in uncertain territory, with the dichotomy between the international and domestic economy."

Earlier in London, trading had been very subdued as the market awaited the Fed's decision. The dollar had closed at DM1.678 against the D-Mark, little changed from the previous day. Against the yen it was Y2.4 weaker, at Y134.

■ The US may have cut interest rates. But this does not mean that investors should expect co-ordinated G7 action.

When Alan Greenspan earlier this month warned of the risk that international turmoil posed, the Bundesbank waited a day to say that Germany would not cut interest rates – even if the US did.

This time round, the Bundesbank got its retaliation in first. Juergen Stark, the bank's vice-president, made clear that there was "no necessity to discuss" lower interest rates in Germany or the core countries of the euro-zone, before the FOMC met, indeed before the US was even awake. "At the moment in Europe we have historically low rates," he said. And that was the end of the matter.

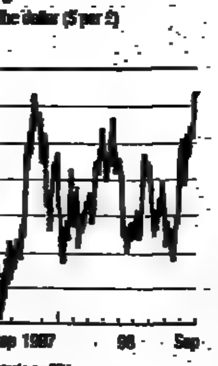
■ There is more hope of a cut when the Bank of England's monetary policy committee decides on interest rates on October 8.

Following September's meeting, many analysts thought the MPC mirrored Chairman Greenspan's words that the balance of risks was moving away from domestically-generated inflation to disinflation imported from a turbulent international economy. The MPC kept interest rates on hold at 7.5 per cent last month. But it signalled that the the next move would be down. Now the Fed has taken the plunge, lower UK rates cannot be far off.

■ The most likely beneficiary of China's decision to repatriate foreign exchange holdings back into the renminbi is the beleagucred Hong Kong dollar. It followed the earlier announcement of foreign exchange controls.

While most analysts expect the direct consequences of the move to be small, it may allow the Chinese government to lower domestic interest rates. That would help domestic demand and ease the pressure on the Hong Kong economy.

Sterling
Against the dollar ($ per £)



Source: [illegible]

■ POUND IN NEW YORK

Sep 29	–Latest–	– Prev. close –
£ spot	1.7070	1.7085
1 mth	1.7040	1.7035
3 mth	1.6910	1.6980
1 yr	1.5780	1.6775

■ OTHER CURRENCIES

Sep 29	£	$
Czech Rp	51.1442 - 51.2497	[illegible]
Hungary	373.665 - 374.140	219.630 - 219.180
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Peru	5.1931 - 5.2012	3.0440 - 3.0470
Poland	[illegible]	[illegible]
Russia	[illegible]	[illegible]
U.A.E.	6.2656 - 6.2700	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Sep 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.1476	-0.0025	399 - 580	20.1876	20.1026	20.0780	4.1	19.9568	3.8	19.5418	3.0	103.9
Belgium	(BFr)	59.0791	-0.0174	276 - 305	59.2980	58.9250	58.8712	4.2	58.5112	3.8	57.2548	3.1	103.7
Denmark	(DKr)	10.8584	-0.0124	808 - 958	10.9346	10.8730	10.8851	2.6	10.8201	2.5	10.6881	2.0	107.4
Finland	(FM)	8.7166	-0.0042	108 - 224	8.7320	8.7000	8.688	4.2	8.6327	[illegible]	8.448	3.1	82.7
France	(FFr)	9.6018	-	980 - 055	9.6178	9.5847	9.5888	4.1	9.5080	3.8	9.3052	3.1	107.3
Germany	(DM)	2.8635	-0.0004	623 - 647	2.8698	2.8578	2.8537	[illegible]	2.8383	3.8	2.7740	3.1	105.7
Greece	(Dr)	492.957	-1.107	659 - 255	495.029	492.140	[illegible]	-5.1	499.371	[illegible]	516.678	-4.8	80.0
Ireland	(I£)	1.1440	-0.0007	433 - 447	1.1472	[illegible]	1.1428	1.4	[illegible]	1.0	[illegible]	2.6	93.9
Italy	(L)	2831.58	-0.33	966 - 345	2837.25	2825.48	2825.51	[illegible]	2813.66	2.5	2754.33	2.7	78.7
Luxembourg	(LFr)	59.0791	-0.0174	276 - 305	59.2980	58.9250	58.8712	4.2	58.5112	3.8	57.2548	3.1	103.7
Netherlands	(Fl)	3.2290	-0.0002	272 - 308	3.2407	3.2225	3.2175	4.3	3.1998	4.0	[illegible]	[illegible]	103.2
Norway	(NKr)	12.6554	-0.0142	474 - 634	12.7070	12.6040	12.6608	-0.5	12.6719	-0.5	12.683	-0.1	93.9
Portugal	(Es)	293.683	-0.022	440 - 877	294.873	291.931	292.847	3.3	291.285	3.2	285.180	2.9	[illegible]
Spain	(Pta)	243.245	+0.009	088 - 401	244.220	242.570	242.604	3.2	241.334	3.1	236.106	2.9	77.7
Sweden	(SKr)	13.3858	-0.0059	776 - 940	13.4458	13.2635	13.3479	3.4	13.2814	3.1	13.0794	2.3	81.9
Switzerland	(SFr)	2.3729	+0.0002	713 - 744	2.3784	2.3582	2.3600	6.3	2.338	5.9	2.2571	4.9	107.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.6
Ecu	-	1.4544	-0.0007	535 - 552	1.4576	[illegible]	1.4502	3.5	1.4425	3.3	1.4117	2.9	-
SDR†	-	1.243890	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.7082	+0.0024	067 - 067	1.7129	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	2.0215	+0.0031	208 - 221	2.0281	2.0196	-	-	-	-	-	-	-
Canada	(C$)	2.5864	-0.0037	650 - 677	2.5907	2.5821	2.5819	2.1	2.5538	2.0	2.5343	1.6	78.1
Mexico	(New Peso)	17.2442	+0.052	221 - 663	17.3636	17.2141	17.684	-30.2	18.515	-29.5	21.7327	-26.0	-
USA	($)	1.7065	+0.0024	060 - 070	1.7132	1.7049	1.7034	2.2	1.6978	2.0	1.6775	1.7	108.8
Pacific/Middle East/Africa													
Australia	(A$)	2.8691	-0.0606	529 - 593	2.8934	2.8491	2.85	2.6	2.8386	2.5	2.8014	1.9	70.4
Hong Kong	(HK$)	13.2220	+0.019	172 - 267	13.2738	13.2102	13.2173	0.4	13.2474	-0.8	13.5596	-2.5	-
India	(Rs)	72.4921	+0.0882	538 - 304	72.7250	72.4420	-	-	-	-	-	-	-
Indonesia	(Rupiah)	18344.93	-144	890 - 095	18521.00	18128.40	18273.77	-60.0	20080.71	-57.7	27280.47	-48.6	-
Israel	(Shk)	6.5816	+0.0098	917 - 714	6.5816	6.5500	-	-	-	-	-	-	-
Japan	(Y)	228.688	-3.678	536 - 840	233.220	228.030	227.280	7.5	224.400	7.3	214.413	6.2	113.1
Malaysia	(M$)	6.4947	+0.0093	628 - 066	6.5102	6.4788	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.3866	-0.0773	822 - 909	3.4365	3.3809	3.3789	2.4	3.3694	2.0	3.3475	1.2	88.7
Philippines	(Peso)	74.8301	+0.0222	622 - 080	75.122	74.546	75.2570	-6.9	76.2583	-7.6	80.9385	-8.2	-
Saudi Arabia	(SR)	6.4004	+0.0093	984 - 034	6.4264	6.3942	6.3965	0.9	6.3952	0.9	6.3580	0.6	-
Singapore	(S$)	2.8598	-0.0382	567 - 609	2.9003	2.8533	2.851	3.3	2.8367	3.1	2.7961	2.2	-
South Africa	(R)	9.9461	-0.0235	340 - 581	10.0137	9.9066	10.0551	-13.3	10.2767	-13.3	11.1000	-12.6	-
South Korea	(Won)	2340.47	-16.64	722 - 371	2362.37	2336.66	-	-	-	-	-	-	-
Taiwan	(T$)	58.8530	-0.0361	283 - 786	59.1063	58.6037	58.7921	1.2	58.8282	0.2	58.9451	-0.2	-
Thailand	(Bt)	68.5109	-0.2879	634 - 584	69.3060	68.2860	68.588	-1.9	67.1466	-3.9	70.0798	-6.4	-

† Rates for Sep 28. [illegible] The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8005	-0.0165	040 - 082	11.8210	11.7640	11.6065	1.3	11.774	1.7	11.6686	1.4	103.8
Belgium	(BFr)	34.6200	-0.06	000 - 400	34.6830	34.5100	34.6257	1.9	34.5275	1.8	34.1975	1.4	103.8
Denmark	(DKr)	6.3805	-0.0165	765 - 835	6.3855	6.3605	6.384	0.6	6.3875	0.6	6.3733	0.4	106.8
Finland	(FM)	5.1070	-0.0088	050 - 090	5.1125	5.0900	5.1080	1.9	5.0948	1.8	5.0482	1.4	82.5
France	(FFr)	5.6265	-0.0081	250 - 271	5.6335	5.6073	5.6267	1.6	5.6103	1.7	5.5557	1.4	107.3
Germany	(DM)	1.6780	-0.0026	778 - 782	1.6800	1.6720	1.678	1.9	1.6733	1.7	1.6558	1.4	105.7
Greece	(Dr)	288.870	-1.085	780 - 960	289.610	287.870	291.58	-6.6	295.085	-7.1	309.11	-6.6	80.0

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
93000	0.195	0.580	0.585	0.135	0.110	0.115
93125	0.135			0.200		
93250	0.095	0.410	0.718	0.285	0.180	0.170
93375	0.060			0.375		
93500	0.040	0.270	0.535	0.480	0.300	0.245
93625	0.030			0.595		

Est. vol. total, Calls 7468 Puts 4365. Previous day's open int., Calls [illegible] Puts [illegible]

■ PHILADELPHIA SE D-MARK OPTIONS

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	Heritable & Gen Inv Bk	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	C. Hoare & Co	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	●Hambros Bank	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

COMMODITIES & AGRICULTURE

Brazil is crucial to prices, says GNI

By Paul Solman

Brazil's economic future is the key factor in the fortunes of world commodity prices, according to analysts at GNI, the international commodities broker.

The country's measures to tackle its trade deficit and the threat of a devaluation in the *real* will have a big impact on commodity producers and prices, GNI said in its latest Commodity Perspectives report.

Brazil is Latin America's biggest economy and the ninth largest in the world.

It is the biggest grower of coffee, but also produces and exports substantial amounts of other commodities such as sugar, soyabeans, cocoa, coarse grains, tin, aluminium, gold and tobacco.

"While [Brazil's] trade deficit would clearly be improved by devaluation, many of the current problems revolve around cyclical falls in commodity prices (soyabeans, sugar and coffee)," GNI said. "Devaluation would therefore help the long-term expansion of these sectors, but would do little to boost volumes in the short term, and would probably tend to weaken international prices."

On coffee, GNI said the New York market had stalled, largely because of uncertainty over Brazil's 1999-2000 crop. "Should a lack of rain decimate output in the key growing state of Mina Gerais, then the global market would look distinctly positive," said GNI, adding that a slight fall in yield and a drop in consumption in developing nations could bring a big surplus.

Brazil is also crucial to cocoa price prospects. "Whether there is a devaluation or not, a recession is virtually assured, which means that consumption will suffer," said GNI.

India sets new season cotton export quota

By Kunal Bose

The Indian cotton season begins tomorrow, with as many as three estimates for the 1998-99 crop – ranging from a conservative 16m bales of 170 kg each to a record 18m bales.

In view of the possible bumper harvest, the federal government has set an export quota of 500,000 bales for the new season compared with exports of more than 400,000 bales in 1997-98.

It wants to make sure reports of a bumper crop do not cause any big fall in cotton prices when marketing the crop begins in November. In the event of a record crop, it will release further cotton for export.

However, the Indian Cotton Mills Federation thinks fears of cotton prices collapsing because of a good harvest are not justified.

Deepak Parikh, chairman of the ICMF, said: "The decision to export before the start of the season is highly disturbing. We have pleaded with the government that export quotas should be set only after a proper assessment of supply and demand. We still do not have any precise information about the 1998-99 crop. What we know at this stage is that there is bollworm attack on the crop in five districts of Punjab."

Anil Jain, managing director of Indo Count Industries, a spinning company, says: "The cotton crop forecasting system in the country is so flawed that it is only at the end of the season that we come to know the exact volume of production. At the beginning of this year, we were told the crop would be 17.2m bales. After several estimate revisions, we know the 1997-98 crop is 15.325m bales, including 575,000 bales of loose cotton. This being the situation, the government should be cautious in releasing cotton for export."

Mr Jain said the country will start the next season with "stocks of 2.213m bales, the lowest in a decade. Therefore, we need a much bigger crop in 1998-99 for the textile industry to be able to sustain normal production.

"I am worried about the falling quality of Indian cotton. The government-constituted technology mission for cotton should focus on quality improvement and it should have the quality parameters of foreign cotton as a reference point."

The East India Cotton Association, the leading body of traders, expects the country to harvest a record 18m bales in 1998-99. The area under cotton is up by more than 200,000 hectares to 9.04m hectares.

There has been a fall of nearly 10 per cent in the land under cotton in the northern Indian states of Punjab and Haryana, but the farmers in Gujarat and Andhra Pradesh, the country's two largest cotton-producing states in the west and south, have more than compensated by expanding their cotton fields over much larger areas.

CA Galiakotwala, a large trading house, has conducted field surveys of the main cotton growing centres. It projects a crop of 17.355m bales for 1998-99.

In most areas, good rain and frequent warm, clear days have helped bring on excellent growth of plants. Flowering nearly 15 per cent higher than normal has been seen in most fields.

However, agricultural experts say the final outcome will depend on what the weather is like until the end of October. The crop was damaged last year by rain in the winter months of November and December.

Industry officials say they are not able to take a view of future cotton prices in the absence of a "scientific crop forecasting system". They want India to follow the US way of monitoring the cotton crop, where more use is made of satellite systems and field surveys.

Oil eases as US facilities restart

MARKETS REPORT

By Robert Corzine and Paul Solman

Oil prices softened yesterday because of a combination of weak technical factors and a resumption of operations at some of the US oil facilities that had been shut down in advance of Hurricane Georges.

The bellwether Brent Blend futures contract for November delivery was quoted at $14.31 in late trading on London's International Petroleum Exchange, down 4 cents on Monday's close.

Traders said the crude markets were also seeking a new direction from the latest weekly inventory data due to be published last night by the American Petroleum Institute.

Gold traded cautiously yesterday, with the market lacking firm direction ahead of the outcome the US Federal Open Market Committee meeting.

The precious metal has rallied in recent days on indications that the FOMC is likely to cut US interest rates.

The afternoon price "fix" in London was $296 an ounce, slightly down on the morning's fix of $296.55 but up on Monday afternoon's level of $292.25. Later in Europe, gold was quoted at $297.

Among base metals, only nickel showed any signs of movement in a quiet day on the London Metal Exchange. Nickel for delivery in three months closed at $4,125 a tonne, up $35 on Monday's close.

On the London International Financial Futures and Options Exchange, robusta coffee futures fell, the benchmark November contract closing down $23 at $1,680 a tonne.

Farmers battle to dredge a living after the floods

Agriculture and industry have been badly hit by the weather in Bangladesh. **David Chazan** examines how the country is coping

Flood of despair: A child takes goats on a banana raft in search of high ground in Rangpur Reuter

As the flood waters recede in Bangladesh, the extent of the damage to the country's agriculture, industry and infrastructure is beginning to become apparent.

Farmers have been worst hit, with much of the rice crop and probably half of the next one wiped out. Jute has also been affected, and there will be some losses in garments exports although economists say they may not be as big as feared by some manufacturers.

About 250 of the 2,000 garments workshops in Bangladesh closed for periods varying from a few days to two months, but most have reopened and are struggling to make up for lost time.

Congestion in the port of Chittagong caused by the closure of the flooded road to Dhaka, the capital, and continuing transport difficulties are slowing export shipments and fabric imports.

The floods have led the government to announce a further postponement of its long-delayed process of awarding production-sharing contracts to exploit offshore gas fields – perhaps the country's biggest hope of a more prosperous future. But industry sources say the flooding may not be the only reason: the government is still considering on what terms the contracts should be negotiated.

The World Bank and the Asian Development Bank expect growth in gross domestic product to fall by at least 1.5 per cent to about 4 per cent for this fiscal year, 2 points below the government target of 6 per cent.

The current account deficit is likely to widen to about 3.5 per cent of GDP, up from 1.9 per cent last year, because of the need for additional imports such as grain and other foodstuffs.

Foreign exchange reserves are also expected to come under pressure, but the government is negotiating a $330m emergency loan with the International Monetary Fund and the World Bank. The government says the flooding has damaged nearly 10,000km of roads, and has estimated the probable cost at about $300m. It has appealed for more than $900m emergency and rehabilitation aid.

The response from donors to a separate United Nations appeal for more than $200m, most of it for emergency relief, has been fairly swift.

The government says more than $170m has now been pledged. But the donors want more details about the government's plans for rehabilitation and reconstruction, although it is expected to take another week before a clearer picture emerges of the effects of the worst floods in Bangladesh in living memory.

But the lending institutions have made clear that they expect the government to help finance the reconstruction. Lending institutions are expected to ask for greater accountability in the use of rehabilitation funds, as well as guarantees of efficiency in the implementation of programmes.

Some development funds pledged for Bangladesh before the floods have not yet been disbursed because of the government's past refusal to accept such conditions, and the World Bank recently informed the finance ministry it was strengthening its monitoring systems to prevent corruption and "leakage" of funds.

With 3.4m tonnes of crops damaged, the government has predicted a food shortfall of 4.3m tonnes this year, more than double the usual deficit of about 2m tonnes.

It has announced plans to give farmers soft loans amounting to about $700m, double the normal agricultural disbursement, but the lending institutions are not sure where the money will come from. They want the government to use its own funds rather than relying on the banking system, which has been severely weakened by the banks' failure to collect bad debt, with loans of $3bn in default – one third of outstanding credit.

The government has made a preliminary estimate that losses in jute production from flood damage will be up to $74m, out of annual foreign currency earnings from jute of $250m.

Exports will be slowed by the damage to roads. Tea may also be affected by the transport problems, but the plantations, mainly in the north-eastern district of Sylhet, escaped the flooding which engulfed two-thirds of Bangladesh.

Economists at the Asian Development Bank expect it will take Bangladesh two to three years to recover and rebuild its infrastructure.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1317.5-8.5	1349-50
Previous	1313-14	1344.5-45.5
High/low		1353/1343
AM Official	1312-12.5	1343.5-44
Kerb close		1352-3
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1130-35	1164-5
Previous	1127-32	1161-63
High/low		1168/1158
AM Official	1127-28	1159-61
Kerb close		1165-70
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

Close	523.5-4.5	536.5-7.0
Previous	511.5-2.5	526-7
High/low		540/530
AM Official	524-5	537.5-8
Kerb close		536.5-9.0
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

Close	4045-4055	4115-25
Previous	4019-20	4085-90
High/low		4150/4080
AM Official	4030-35	4100-05
Kerb close		4150-55
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

Close	5385-95	5355-60
Previous	5395-405	5360-65
High/low		5350/5330
AM Official	5390-400	5355-60
Kerb close		[illegible]
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne): [illegible]

■ COPPER, grade A ($ per tonne): [illegible]

■ LME AM Official £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX): [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild): [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	294.2	-1.1	295.3	293.1	2,166	4,258
Dec	296.9	-1.1	298.6	295.5	31,472	93,297
Feb	298.6	-1.0	301.1	297.5	169	10,303
Apr	300.3	-1.0	302.6	299.3	114	12,337
Jun	301.9	-1.0	304.3	301.7	77	15,041
Aug	303.5	-1.0	306.5	306.5	10	4,666
Total					34,282	177,536

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Oct	347.2	-6.8	355.0	347.0	3,590	4,383
Jan	348.0	-	355.7	347.0	3,865	8,311
Apr	348.8	-5.3	352.5	350.0	141	247
Jul	349.5	-4.8	354.0	350.0	3	40
Total					7,605	13,362

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	282.00	-5.55	284.00	282.00	55	2,671
Mar	279.50	-5.55	-	-	-	325
Total					55	2,996

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Dec	536.0	+7.0	540.0	529.0	14,692	52,928
Jan	538.0	+6.8	539.0	539.0	3	53
Mar	539.2	+6.6	542.5	536.0	378	10,834
May	541.0	+6.0	541.0	538.5	10	1,706
Jul	542.5	+5.3	542.5	541.0	6	2,863
Sep	543.4	+5.0	546.0	546.0	46	682
Total					15,971	76,169

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	15.83	+0.19	15.90	15.43	36,478	119.6k
Dec	15.91	+0.18	15.95	15.56	20,508	75,401
Jan	16.03	+0.14	16.05	15.73	10,257	47,857
Feb	15.93	-0.07	16.08	15.87	3,420	20,980
Mar	16.17	-	16.15	16.08	1,997	19,992
Apr	16.26	+0.03	16.25	16.17	1,286	11,980
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel): [illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.): [illegible]

■ GAS OIL IPE ($/tonne): [illegible]

■ NATURAL GAS IPE: [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.): [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.): [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	73.60	+0.15	73.60	73.35	15	2,614
Jan	75.50	+0.25	75.60	75.35	45	2,358
Mar	77.40	+0.15	77.25	77.25	32	1,741
May	79.40	+0.20	79.25	79.25	2	1,422
Jul	81.00	+0.00	-	-	-	81
Total					95	8,187

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	276.75	-	278.75	276.50	6,657	82,602
Mar	291.75	-	293.00	291.00	1,267	28,467
May	300.50	+0.50	302.00	300.00	208	5,419
Jul	310.25	+0.25	312.60	310.00	462	12,023
Sep	316.00	-	-	-	10	409
Dec	325.50	-2.00	327.50	325.50	75	615
Total					10,696	129,935

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	211.75	-1.00	214.00	211.25	28,956	180,846
Mar	224.50	-1.00	226.00	223.50	4,224	66,808
May	232.00	-1.00	233.50	231.50	1,623	25,549
Jul	238.00	-1.00	239.75	237.50	2,101	34,797
Sep	242.75	-0.75	244.00	242.50	256	5,968
Dec	250.50	-1.25	252.00	250.50	764	16,612
Total					48,183	[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Nov	73.00	+0.25	-	-	-	787
Jan	75.50	+0.25	-	-	-	666
Mar	77.00	+0.25	-	-	-	60
May	78.00	+0.25	-	-	-	23
Sep	77.00	-	-	-	-	-
Total						1,506

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	527.25	-6.00	533.00	526.50	30,390	92,494
Jan	537.75	-4.75	543.50	536.50	3,743	27,782
Mar	548.00	-4.25	553.50	547.00	1,371	21,220
May	557.50	-4.25	562.00	557.00	437	8,054
Jul	565.50	-4.75	571.00	565.25	1,107	11,748
Aug	567.00	-3.50	571.00	567.00	30	656
Total					37,186	166,752

■ SOYABEAN OIL CBT (60,000lbs; cents/lb): [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton): [illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne): [illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point): [illegible]

PULP AND PAPER

■ PULPEX CNLX (USD; 24 air dry tons): [illegible]

FUTURES DATA: All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	991	+16	993	993	-	7
Dec	1016	+7	1019	1007	1,708	65,371
Mar	1044	+7	1048	1035	1,329	38,382
May	1061	+8	1063	1056	236	14,921
Jul	1078	+6	1078	1078	20	[illegible]
Sep	1095	+6	1097	1095	295	25,823
Total					3,791	170,320

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1562	+16	1569	1544	2,360	32,126
Mar	1590	+17	1592	1592	1,535	21,479
May	1616	+17	1616	1606	106	6,472
Jul	1642	+17	1635	1635	23	2,026
Sep	1663	+17	-	-	23	1,721
Dec	1694	+17	-	-	149	4,944
Total					4,147	72,961

■ COCOA (ICCO) (SDR's/tonne)

Sep 28	Price	Prev. day
Daily	1209.94	1192.62

■ COFFEE LIFFE (5 tonnes; $/tonne)

Sep	1730	-40	1770	1720	220	762
Nov	1660	-23	1685	1655	3,097	18,644
Jan	1612	-9	1625	1602	2,090	8,107
Mar	1590	-4	1600	1582	728	3,045
May	1576	-2	1580	1567	156	1,166
Jul	1566	+1	1580	1563	55	801
Total					6,346	32,175

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	105.70	-2.65	108.50	105.50	8,135	17,451
Mar	103.70	-2.70	106.25	103.50	549	7,902
May	104.25	-2.80	107.00	104.75	254	3,379
Jul	105.25	-2.55	108.25	105.75	130	1,803
Sep	106.25	-2.50	108.50	108.50	35	1,437
Dec	108.25	-2.65	110.60	110.00	6	472
Total					8,993	32,344

■ COFFEE (ICO) (US cents/pound)

Sep 28	Price	Prev. day
Comp. daily	96.96	94.57
15 day average	95.02	95.17

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne): [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs): [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs): [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs): [illegible]

VOLUME DATA: Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100): [illegible]

■ CRB Futures (Base: 1967 = 100): [illegible]

■ GSCI Spot (Base: 1970 = 100): [illegible]

LME WAREHOUSE STOCKS (tonnes): [illegible]

TEA: from the Tea Brokers' Association: [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	59.800	-0.125	59.850	59.425	8,709	28,240
Dec	61.950	-0.085	62.300	61.800	6,471	36,465
Feb	63.100	-0.175	63.325	62.925	3,483	19,735
Apr	64.800	-0.175	64.800	64.450	1,086	9,166

■ LEAN HOGS CME (40,000lbs; cents/lbs): [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs): [illegible]

LONDON TRADED OPTIONS

■ ALUMINIUM (99.7%) LME; ■ COPPER (Grade A) LME; ■ COFFEE LIFFE; ■ COCOA LIFFE; ■ BRENT CRUDE IPE: [illegible]

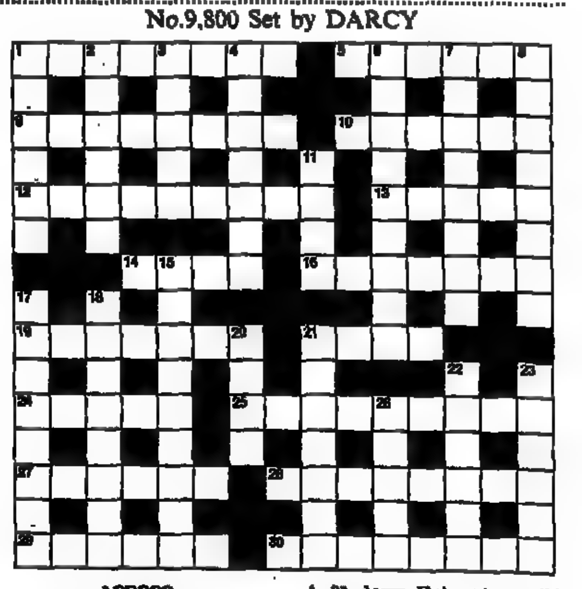
LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel); ■ OIL PRODUCTS; ■ NATURAL GAS; ■ OTHER: [illegible]

JOTTER PAD

CROSSWORD

No.9,800 Set by DARCY



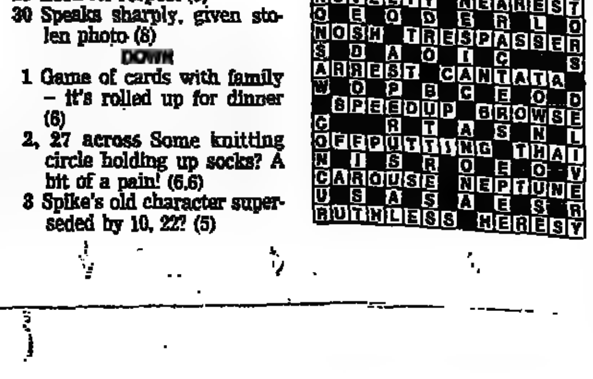
ACROSS

1 Close drier – point out one's working late (5,3)
5 Bill boards a coach, perhaps an old 9, 7? (6)
9, 7 down Put briefly, copper would do for the leads in this machine (8,8)
10, 22 down Conquering language problem after using Old English? (6,6)
12 Freezing ship's security, I sank 'er, so it's said (3-6)
13 Break out in a temper, uptight (5)
14, 21 across Leo, perhaps, given autograph by celebrity (4,4)
16 East end criminal, one of those into pot? (3-4)
19 Where journalist may work, in theory (2,5)
21 See 14
24 This bread is mine, thank you (5)
25 Fellow interrupts Cordelia, terribly heated, in a way (4-5)
27 See 2 down
28 See 18 down
29 Look for respect (6)
30 Speaks sharply, given stolen photo (8)

DOWN

1 Game of cards with family – it's rolled up for dinner (6)
2, 27 across Some knitting circle holding up socks? A bit of a pain! (6,6)
3 Spike's old character superseded by 10, 22? (5)
4, 21 down Hot-seat possibly involved with rain and wet? (7,7)
6 One should return as Romeo, playing in fringe, maybe (9)
7 See 9 across
8 Religiously approve of City fans' waywardness? (8)
11 Pluck little bits of 20? (4)
15 I'll take steps to deal with knocking on the floor (3-6)
17 One's written notes, including list of reports (8)
18, 28 across Falling slightly back, I'd have a position in this (8,8)
20 Type of music to accompany lullaby? (4)
21 See 4 down
22 See 10 across
23 These days, doctor should secure right promotion (6)
26 Camera setting, given some cliffs to photograph (1-4)

Solution 9,799



صكدا من الاجل

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

Aberdeen Prolific International Fund Plc

BT Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co

Herald Investment Fund Plc

Lazard Investment Funds Ltd

Baring International Fd Mgrs (Ireland) Ltd

Citizens Investment Trust Mngt Company

City of London Investment Mgmt Co., Ltd

CoreStates Fund Management (Ireland) Ltd

DMG International Fund

Morgan Grenfell Investment Funds Ltd - Contd.

Daiwa Europe Fund Mgrs Ireland Ltd

IRELAND (REGULATED)(**)

John Hancock Funds Plc

Short-Term Investments Co - Contd.

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Perpetual Fund Management - Contd.

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds ltd

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ABN AMRO Funds - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

Bank Von Ernst & Cie AG

Barclays Diversified Portfolio (u)

Barclays Inv Funds (Luxembourg)

Chase Manhattan Vista Funds

Comgest SA

Commercial Union Luxembourg

Credit Agricole Indosuez

Dresdner RCM Global Investors (UK) Ltd

Dresdner RCM Japanese Warrant Fund

Dresdner RCM Select Fund (u)

Fidelity Funds (u)

Fleming Group (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav (u)

Frontrunner Ltd

GT Global

HSBC Investment Funds Luxembourg SA (u)

Henderson Management SA (u)

INVESCO International Limited (u)

Jupiter Tyndall Global Fund

Liberty Newport World Portfolio (u)

Lloyds Bank Luxembourg

Lombard Odier Invest (u)

Manulife Global Fund (u) (x)

Mercury Asset Management

Mercury Asset Management - Contd.

Morgan Stanley Sicav

Pioneer International Investments SICAV

Scottish Equitable Intl Fund SICAV (u)

Sun Life Global Management Ltd (u)

Schroder Selection Fund SICAV

Credit Agricole Indosuez

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Asian International Umbrella Fund (u)

Asia Master Fund

Asian Bank (Switzerland) Ltd

The Archipelago Fund Sicav

Banque Colbert SA

Banque Ferrier Lullin (Lux) SA

Banque Internationale A Luxembourg

Barclays Liquidity Portfolio

Brunswick Russian Emerging Equities Trust

Bryce Greiner Asset Management

Capel-Cure Myers Intl Fd Sicav (u)

Carlson Investment Management

Citicorp Investment Mgmt (Luxembourg) SA

Cox & Kings Overseas Fund

Credit Suisse Asset Mgmt Funds - Contd.

Daiwa Japan Small Equity Fd (u)

Dicon Worldwide Investment Fund

The Dragon Fund Sicav

Dresdner RCM European Bond Fund

Egypt Trust

Emerging Markets Brewery Fund SICAV

The European Asset Value Fund

FMG Mir SICAV

Fidelity Investment (CI) Ltd

The First Korea Smaller Companies Fund

Fleischer Francis Trees & Watts

Fleming Group

Foreign & Colonial Emerging Markets Ltd

Framlington International Portfolios

Fred Alger Management Inc

Global Funds Management S.A. (u)

HSBC NAPF Luxembourg SA

IYFO Capital Mgmt Invest Luxembourg SA

INVESCO International Limited

Investext Investment Fund SICAV

JP Morgan

Kredietbank SA Luxembourg

Lombard Odier Selection

Lazard Holdings

Lloyds Bank Luxembourg

MC Securities Limited London

MFS American Funds

Merrill Lynch Asset Management

Merrill Lynch Asset Management - Contd.

Mercury Universal Sicav

Nikko Bank (Luxembourg) S.A.

Nitron Capital Management

Nomura Asian Infrastructure Fd SICAV

Pan-Holding SA

Pictet Group

Rothschild (Group Edmond de)

SCOTECH SA

Scudder Global Opportunities Funds

Societe Generale Emer Europe Asset Mgt

Standard Chartered Investment Fund SA

State Street Research & Management Co

Stewart Scudder Environmental Value Fd

TCW Luxembourg Funds

Templeton Emerging Asia

Templeton Russian & East European Debt Fd

Trinity Browne Value Funds

UBS AG

UBS AG - Contd.

Unicapital Investments

Union Financial Services SA Lux

Union Bancaire Privee

WLS Finance Ltd India

Vesper Consult

WINTERTHUR Fund Mngmt Co (Lux) SA

WP Stewart Global Growth Fund

World Invest SICAV

OFFSHORE INSURANCES

Aberdeen International Ltd

Albany Dunbar International Assce Ltd (u)

CMI Insurance Co Ltd

CMI Ins Co Ltd/Clerical Med Life

Eagle Star Intl Life

Equitable Life

Family Fund Managers

Euralife Assurance Group

Finance International Ltd

Friends Provident International

Friends Provident International - Contd.

Hansard International Ltd

Isle of Man Assurance Ltd

Lehman International Group

Midland Life International Ltd

Old Mutual Hong Kong

Old Mutual International (Guernsey) Ltd

Old Mutual International (Ireland) Ltd

Old Mutual International (Isle of Man) Ltd

Premier Life

Royal Life Investment Consultants

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

CHEMICALS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

CONSTRUCTION

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

CONSTRUCTION - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

DISTRIBUTORS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

ELECTRICITY

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

FOOD PRODUCERS - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

HEALTH CARE

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

HOUSEHOLD GOODS & TEXT

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

INSURANCE

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

INSURANCE - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

INVESTMENT TRUSTS

	Notes	Price	+ or -	52 week high	52 week low	Yld Gr's	Dis or Pm(-)
[illegible]							

INVESTMENT TRUSTS - Continued

	Notes	Price	+ or -	52 week high	52 week low	Yld Gr's	Dis or Pm(-)
[illegible]							

INV TRUSTS SPLIT CAPITAL

	Notes	Price	+ or -	52 week high	52 week low	Yld Gr's	Dis or Pm(-)
[illegible]							

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

For Mezzanine see LEISURE & HOTELS

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]
Barlow R		[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]
Investec Group		[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Investec Hldgs		[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
SA Breweries R		[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]
Tiger Oats	†	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]
Vaalgold-Hulett R		342	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		[illegible]		[illegible]	8472	–	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Teletext, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm contact close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into Sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAV) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue
h Assumed dividend yield after scrip issue
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
, ex dividend;
, ex scrip issue;
, ex rights;
, ex all;
, ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Footsie rallies as SmallCap dips below 2,000

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A day-long jousting session with the 5,100 level ended with the FTSE 100 index, the London market's leading benchmark, finishing marginally ahead, up 15.2 at 5,108.7.

At its worst level of the day, within 30 minutes of the opening, the FTSE 100 posted a low of 5,042.7, down more than 50 points.

The market's smaller capitalised stocks delivered another worryingly weak performance. The FTSE SmallCap index dropped below the 2,000 mark for the first time since January 19 1996, and is now 28.5 per cent down from its May 26 peak of 2,793.8.

The market's extremely nervous performance came before the outcome of the regular meeting of the US Federal Reserve's open market committee in Washington yesterday.

A decision from the committee was due shortly after 7pm London time.

Dealers in London said the market had behaved reasonably well in front of what was seen as the most crucial FOMC meeting for many months.

"Everyone I've spoken to expects the Fed to cut, but no one is confident about the extent of the cut," said one marketmaker. He said the market would take a minimum 25 basis points reduction as read and warned that many had already factored in a 50 basis points reduction.

The general view around the stock market was that Wall Street, and therefore London and the rest of global markets, would probably hold or absorb small profit-taking in the event of a 25 basis points cut and would respond positively to a 50 basis points cut.

But ominously, many said the market would give a ready and negative response to the Fed leaving rates on hold in the short term.

Others said the market would probably run into further pockets of turbulence as the third quarter came to a close and the last quarter, traditionally one of the most volatile of the year, kicked off.

There remains a widespread view that London still has to face a further sizeable sell-off, which many expect to drive the FTSE 100 lower before the year-end.

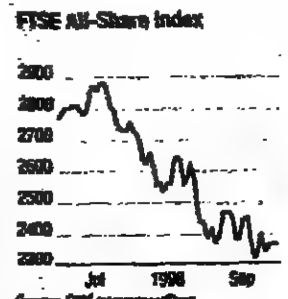
That dip would be triggered by further profit downgrades and even more turmoil in other world markets. Those dire predictions would be made even worse by any further failures of hedge funds, after the shock of the near-collapse of Long-Term Capital Management.

The erratic behaviour of the FTSE 100 was not mirrored by the second-line stocks, represented by the FTSE 350, which stayed in positive ground all day, eventually closing the session a net 9.0 ahead at 4,562.0.

The midcap index was bolstered by some encouraging corporate news from, among others, Business Post and Booker, both of which made rapid gains; the former by evidence of directors buying shares in the company and the latter after the appointment of a new chairman and chief executive who are both highly rated in the City.

Turnover in equities reached 970.1m shares by the 6pm count, with FTSE 100 constituents accounting for just over half the overall total.

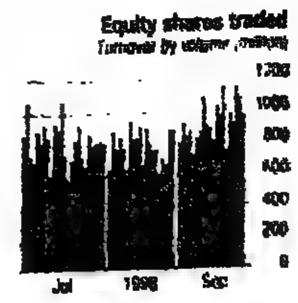
FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5108.7	+15.2	FT 30	[illegible]	[illegible]
FTSE 250	4562.0	+9.0	FTSE Non Fins p/e	[illegible]	[illegible]
FTSE 350	2439.1	+6.8	FTSE 100 Fut Dec	[illegible]	[illegible]
FTSE All-Share	2363.01	+5.86	10 yr Gilt yield	[illegible]	5.34
FTSE All-Share yield	[illegible]	3.33	Long gilt/equity yld ratio	[illegible]	1.47

Best performing sectors

Scottish banks battered

COMPANIES REPORT

By Peter John, Martin Brice and Paul Clark

The Scottish banks felt the chill wind of pre-results selling as the market took a view before Bank of Scotland's interims today.

The last time the bank announced figures in April, Peter Burt, chief executive, gave a grim warning on credit quality, which pointed the way to a downturn.

One analyst said: "The bank has become legendary for making downbeat statements. It takes a delight in being dour."

The prospect of first-half profits of between £390m and £430m, compared with £347m for the equivalent period last year, was undermined by the possibility of another dollop of gloom.

And although there are few worries about exposure to emerging markets or hedge funds, there are concerns about loan growth. In addition, the bank's shares have outperformed the market and sector strongly over recent months.

The shares were off 38 at worst and attempts at a rally were not entirely successful. The stock closed 20½ down at 579½p. Royal Bank of Scotland, which tends to trade in relation to its Scottish rival, ended the day 28 off at 683p.

Diageo, the food and drinks group, recovered after last week's gloomy trading statement, racing up sharply late in the session to close 48½p higher at 547p. There were rumours – later denied by the company – of a sale of its underperforming Cruzcampo Spanish brewing business.

A weighty research document on food retailing from Charterhouse Tilney, due to arrive on fund managers' desks today, recommended investors to sell Safeway but buy Iceland.

Investor sentiment on the sector had been fragile before recent figures from Tesco as concerns had mounted that the big food retailers would be forced to slash margins in the face of a slowing of consumer demand.

However, the note from Charterhouse said: "We believe that the prevailing evidence makes the recent talk of price wars misplaced." It also highlights the sector's "defensive qualities in clearly volatile markets".

It said Safeway stock should be sold. It was overvalued and "any slowdown would be calamitous". The shares lost 12¾ to 292¾p in heavy trade of 6m. Iceland shares should be bought because of its "improving strategic outlook". The stock gained 7 to 190½p.

Tesco was rated a "hold" and the stock was up 2 at 165p in busy volume of 11m. The team at Charterhouse said: "We still regard Tesco as an important part of a British food retailing investment portfolio."

J Sainsbury, also rated a "hold", was down 1½ at 567p in busy trading of 8.9m. Asda, a "hold", saw 9.2m traded as it firmed to 171p.

Glaxo came under renewed US pressure as J.P. Morgan took the stock off the "buy" list. The US broker moved it to "market performer" with a price target of £18.50 for year-end 1999 on a target p/e of 33.5 times 1999 forecasts. It sees fair value at £16.50.

That valuation takes an even more severe view on the stock than Goldman Sachs, which downgraded last week and established an £18 target for the shares.

Chiroscience jumped 16½ to 264p after the company announced progress in genetics research that it said could lead to drugs for the immune system and osteoporosis.

A positive note from Lehman Brothers on Siebe highlighted its potential to grow in spite of an industrial slowdown. The shares gained 9 to 198p.

Chris Heminway at the broker told clients: "Siebe remains a premium European industrial manufacturing business with respect to its track record of growth and profitability and should be rated as such."

He set a price target of 325p-350p and said: "The shares offer 90 per cent upside in absolute terms."

Lasmo outperforms

Lasmo was one of the oil companies to outperform a sluggish market yesterday with the stock still benefiting from a major sector review.

BT Alex Brown, traditionally one of the leading bulls on oil price prospects, has set a 1999 forecast of $16 a barrel on Brent crude, down $4 from its previous official estimates.

But the broker remains convinced that oils will outperform the market as long as underlying prices pick up.

BT Alex Brown has upgraded Lasmo to a "strong buy", arguing that "new developments will transform returns over the next three years, the balance sheet is stronger than most and exposure to provinces of real long-term low cost potential is high". The shares were up 6½ at 176½p.

Mobile phone operators rallied behind brokers' "buy" notes, with Securicor up 14 at 381p after a Morgan Stanley recommendation and Dresdner Kleinwort positive on Orange, which gained 12 but slipped to close flat at 567.

Cable & Wireless improved 34 to 584p in response to positive meetings with brokers.

The latest casualty of the stream of bad news to come from the electronics sector was Premier Farnell, which suffered a downgrade from Dresdner Kleinwort Benson. The shares fell 1½ to 153½p in brisk trading.

The broker cut forecasts for 2000 from £131m to £122.5m and for 2001 from £149m to £136m.

British Steel was caught in a two-way pull as first the bears and then the bulls had the upper hand in the stock. The profits warning from Dutch steel company Hoogovens knocked the stock 3 per cent in early dealings.

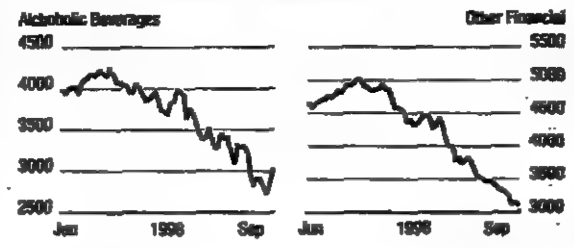
However, the shares found support just above 100p and closed firmer at 104p after 2.4m had been traded. The stock, which dropped out of the FTSE 100 into the FTSE 250 index this month, stood at 172p earlier this year.

British Airways was down 12 at 372p after Goldman Sachs eased down its profits forecasts after taking a look at predictions of a slowdown in the UK economy next year and evidence from other airlines of slower bookings.

The broker retained its "market performer" stance on the stock in spite of bringing its forecast for 2000 down from £645m to £585m.

Among stores, Debenhams rose 30½ at 325½p following repetition of a "buy" recommendation by Warburg Dillon Read.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Sep 29	Sep 28	Sep 25	Sep 24	Sep 23	Yr ago	*High	*Low
FT 30	3081.5	3077.4	3059.1	3112.3	3153.8	3370.5	3884.0	3054.1
Ord. div. yield	3.45	3.45	3.47	3.40	3.36	3.38	4.22	2.72
P/E ratio net	19.45	19.45	19.33	19.75	19.95	21.96	28.41	15.80
P/E ratio nil	19.37	19.37	19.25	19.67	19.88	21.88	28.10	15.71

FT 30 since compilation: high 3880.1 11/08/98; low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3077.4	3071.8	3070.6	3068.5	3073.8	3077.0	3078.5	3076.2	3082.2	3054.1

STOCK MARKET TRADING DATA

	Sep 29	Sep 28	Sep 25	Sep 24	Sep 23	Yr ago
SEAQ bargains	55,768	63,038	69,002	57,121	54,358	53,184
Equity turnover (£m)†	-	(a)	3232.0	3724.7	3198.9	3430.1
Equity bargains†	-	(a)	48,408	44,429	43,321	55,407
Shares traded (m)†	-	(a)	820.1	984.8	907.5	1031.8
Total market bargains‡	-	-	64,929	67,481	58,225	-
Total turnover (£m)‡	-	-	4424.1	4938.2	4511.0	-
Total shrs traded (m)‡	*970.1	1083.0	1086.1	1257.7	1196.1	-
Tradepoint turnover (£m)	18.8	16.6	21.0	37.8	30.6	5.2
Tradepoint shrs traded(m)	7.0	5.9	5.7	12.8	9.8	1.1

†Excluding intra-market and overseas turnover but including Crest business. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	534	Total Highs	16	Total contracts	[illegible]
Total Falls	1,008	Total Lows	270	Calls	20,381
Same	1,408			Puts	[illegible]

Sep 29 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
10.25	Nil	5/10	3½pm	¼pm	Tadpole Tech	¼pm	-¼
7	Nil	12/10	75pm	¼pm	Ultima Network	¼pm	
10	Nil	19/10	1.50pm	1.25pm	Wiggins Group	1.25pm	

[illegible]

FTSE GOLD MINES INDEX

	Sep 28	% chg on day	Sep 25	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	1119.16	+2.8	1088.62	1494.59	1.65	-	1535.45	701.68
■ Regional Indices								
Africa (9)	1170.81	-1.3	1186.11	1328.88	3.43	44.93	1525.29	765.63
Australasia (7)	1140.75	+0.3	1137.46	1489.42	3.37	8.06	1639.95	815.93
Americas (11)	1103.53	+5.3	1047.77	1464.19	0.87	48.21	1574.16	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Sep 28	Day's chge%	Sep 25	Sep 24	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5093.5	+0.6	5061.0	5157.6	5220.3	3.15	2.68	2.00	19.86	121.67	2246.41
FTSE 250	4553.0	+0.5	4528.9	4580.3	4816.1	3.94	3.24	2.05	15.30	112.08	1958.82
FTSE 250 ex Inv Tr	4599.5	+0.6	4572.9	4623.5	4830.5	4.08	3.47	2.14	14.31	116.18	1997.02
FTSE 350	2432.3	+0.6	2417.2	2454.1	2505.6	3.28	2.80	2.01	18.80	[illegible]	2191.90
FTSE 350 ex Inv Tr	2438.8	+0.6	2423.6	2470.7	2507.9	3.30	2.81	2.03	18.71	58.82	1127.34
FTSE 350 Higher Yield	2358.4	+0.8	2340.3	2371.5	2411.4	4.38	3.71	1.95	14.65	73.29	1820.66
FTSE 350 Lower Yield	2503.5	+0.5	2491.9	2556.5	2602.6	2.11	1.82	2.16	27.43	45.86	1629.87
FTSE SmallCap	2002.59	-0.4	2011.52	[illegible]	2324.65	4.09	3.32	1.90	16.11	48.01	1756.14
FTSE SmallCap ex Inv Tr	1989.29	-0.6	2000.86	2021.35	2301.67	4.38	3.56	1.98	14.38	60.96	1763.29
FTSE All-Share	2357.15	+0.6	2343.85	2389.23	2444.30	3.33	2.82	2.01	18.73	56.52	2155.68
FTSE All-Share ex Inv Tr	2366.90	+0.6	2353.48	2398.21	2447.78	3.35	2.84	2.02	18.46	57.20	1113.75

■ FTSE Actuaries Industry Sectors

	Sep 28	Day's chge%	Sep 25	Sep 24	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4138.65	+0.1	4132.65	[illegible]	5112.68	3.57	3.20	1.68	20.84	117.86	1924.25
12 Extractive Industries(6)	2891.47	+2.9	2815.56	2858.48	4119.02	5.16	4.77	2.01	12.06	125.24	[illegible]
15 Oil, Integrated(4)	4758.49	-0.2	4767.51	4744.88	5511.44	3.43	3.05	1.85	22.09	128.84	2274.21
18 Oil Exploration & Prod(12)	2062.88	-0.3	2069.86	2089.47	3811.87	2.62	2.29	0.99	48.26	[illegible]	[illegible]
20 GEN INDUSTRIALS(214)	[illegible]	+1.0	1541.28	[illegible]	2158.02	4.78	4.14	2.20	12.07	53.00	926.34
21 Construction(38)	1176.82	+0.9	1166.13	1183.77	1388.98	4.33	3.60	2.87	10.08	31.70	1059.86
22 Building Matls & Merchs(25)	1328.78	+1.2	1313.07	1328.68	1832.36	5.58	4.84	2.11	[illegible]	53.53	735.17
23 Chemicals(22)	1709.35	+1.7	1681.51	1700.96	2728.38	5.89	5.30	1.70	12.88	66.57	884.83
24 Diversified Industrials(7)	1062.91	+3.5	1026.77	1045.98	1551.58	5.44	5.88	2.04	11.28	57.13	873.31
25 Electronic & Elect Equip(25)	2272.33	-0.4	2282.53	2287.54	2204.69	3.35	2.72	1.82	[illegible]	55.66	1270.25
26 Engineering(62)	1986.93	+1.8	1952.18	2008.61	2977.55	[illegible]	[illegible]	[illegible]	11.62	[illegible]	[illegible]

[illegible]

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	1,100	495	+4
AMVESCAP	1,300	366½	-4½
ASDA Group	11,400	171	+1
Abbey National	3,200	1009	-11
Alliance & Leicester	1,900	891	-19

[illegible]

FTSE INTERNATIONAL

صكذا من الاجل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY SEPTEMBER 28 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY SEPTEMBER 25 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	175.21	0.0	152.43	151.02	153.08	199.46	0.7	3.76	175.26	152.63	149.96	152.26	197.99	238.24	163.96	236.34
Austria (22)	179.33	-1.6	156.01	154.57	156.68	156.58	-1.0	2.16	182.18	158.69	155.89	158.26	158.17	253.73	176.66	205.79
Belgium (22)	352.94	0.7	307.05	304.21	308.37	301.85	1.3	2.27	350.47	305.21	299.88	304.48	297.94	398.52	234.33	248.33
Brazil (32)	136.86	1.3	119.06	117.97	119.58	298.39	1.3	3.13	135.09	117.64	115.59	117.36	294.48	308.59	102.69	276.83
Canada (119)	181.87	0.4	158.22	156.76	158.90	199.09	0.3	2.02	181.20	157.80	155.05	157.42	198.40	248.78	167.18	223.76
Denmark (34)	450.44	0.2	391.88	388.26	393.56	391.91	0.9	1.66	449.50	391.45	384.61	390.51	388.57	537.33	408.26	413.09
Finland (28)	425.68	4.0	370.33	366.91	371.92	457.19	4.6	2.01	409.41	356.54	350.31	355.69	437.19	506.46	267.59	325.35
France (78)	278.15	0.6	241.98	239.75	243.02	245.85	1.1	2.55	276.63	240.91	236.70	240.33	243.17	345.18	217.58	238.24
Germany (55)	258.02	1.3	224.47	222.40	225.44	225.44	1.8	1.41	254.82	221.92	218.04	221.39	221.39	325.61	204.89	228.41
Greece (37)	260.30	0.0	226.46	224.37	227.43	541.01	-0.1	1.74	260.34	226.72	222.76	226.18	541.26	333.20	243.18	–
Hong Kong, China (66)	239.80	2.8	208.62	206.70	209.52	238.54	2.8	6.20	233.29	203.17	199.62	202.68	232.05	518.79	196.64	510.66
Indonesia (26)	21.32	0.2	18.55	18.38	18.63	141.91	0.2	4.61	21.28	18.53	18.21	18.49	141.63	149.07	19.04	149.07
Ireland (16)	448.01	1.3	389.76	386.16	391.43	424.02	1.9	2.24	442.25	385.14	378.41	384.21	416.20	560.44	359.60	377.48
Italy (54)	144.30	4.0	125.54	124.38	126.08	179.10	4.6	1.63	138.75	120.83	118.72	120.54	171.20	184.49	103.30	115.27
Japan (480)	80.65	0.6	70.17	69.52	70.47	69.52	1.3	1.13	80.18	69.82	68.60	69.65	68.60	120.34	78.40	120.10
Malaysia (108)	108.82	0.0	94.67	93.80	95.08	159.26	0.0	3.59	108.82	94.77	93.12	94.54	159.26	319.52	73.52	303.66
Mexico (29)	1073.14	2.2	933.61	924.99	937.62	11637.58	0.7	2.30	1049.55	914.02	898.06	911.83	11756.41	1901.98	787.15	1842.16
Netherlands (27)	441.51	1.0	384.10	380.56	385.75	381.86	1.6	2.44	437.13	380.69	374.04	379.77	375.82	562.38	390.20	413.78
New Zealand (14)	46.44	-0.5	40.40	40.03	40.57	50.12	0.4	6.13	46.65	40.62	39.91	40.52	49.92	95.87	45.68	91.91
Norway (37)	210.63	0.5	183.25	181.56	184.04	212.56	1.0	2.96	209.59	182.53	179.34	182.08	210.46	374.84	200.58	349.72
Philippines (22)	49.81	0.8	43.33	42.93	43.52	108.96	1.1	1.50	49.41	43.03	42.28	42.92	107.78	106.98	42.48	100.40
Portugal (18)	221.04	-1.5	192.30	190.52	193.12	260.74	-0.9	1.25	224.47	195.49	192.07	195.02	263.20	299.39	221.04	–
Singapore (41)	125.68	0.5	109.34	108.33	109.81	98.40	1.0	3.02	125.08	108.93	107.03	108.67	97.45	304.85	102.45	299.47
South Africa (39)	188.73	1.7	164.19	162.67	164.90	241.31	2.1	3.73	185.62	161.65	158.83	161.26	236.32	346.20	151.55	327.35
Spain (31)	323.80	0.6	281.69	279.09	282.91	350.14	1.2	2.19	321.74	280.20	275.30	279.53	345.83	417.73	236.28	274.48
Sweden (49)	458.77	2.6	399.12	395.44	400.84	533.77	2.4	2.21	447.13	389.39	382.59	388.46	521.33	628.19	430.92	528.42
Switzerland (26)	354.13	0.0	308.09	305.25	309.41	305.70	1.1	1.36	354.01	308.29	302.91	307.56	302.39	439.48	301.11	317.08
Thailand (36)	11.79	0.0	10.25	10.16	10.30	17.93	0.9	5.26	11.79	10.26	10.09	10.24	17.77	45.52	8.15	45.52
United Kingdom (209)	337.63	0.8	293.73	291.02	294.99	293.73	0.7	3.33	335.10	291.83	286.73	291.13	291.83	401.84	314.38	329.44
USA (622)	428.03	0.4	372.38	368.94	373.98	428.03	0.4	1.53	426.26	371.22	364.74	370.33	426.26	495.88	358.31	384.87
Americas (802)	381.56	0.4	331.95	328.89	333.38	323.41	0.4	1.56	379.93	330.87	325.09	330.08	322.06	437.03	326.79	351.87
Europe (745)	313.21	1.0	272.49	269.97	273.66	281.87	1.4	2.40	309.98	269.95	265.24	269.31	277.96	386.24	267.44	287.80
Eurobloc (351)	90.27	1.3	78.54	77.81	78.87	85.35	1.9	2.02	89.09	77.57	76.22	77.39	83.73	113.28	85.88	–
Nordic (148)	424.81	2.3	369.58	366.16	371.16	422.37	2.5	2.12	415.16	361.55	355.24	360.68	412.15	555.97	388.51	450.95
Pacific Basin (863)	86.62	0.7	75.36	74.66	75.68	75.60	1.4	1.89	86.03	74.92	73.61	74.74	74.59	136.58	83.29	136.33
Euro-Pacific (1608)	181.01	0.9	157.47	156.02	158.15	153.10	1.4	2.26	179.31	156.16	153.43	155.78	150.99	220.19	172.03	199.54
North America (741)	411.53	0.4	358.02	354.72	359.56	412.32	0.4	1.55	409.84	356.91	350.68	356.06	410.63	469.20	349.06	374.90
Europe Ex. UK (536)	290.73	1.2	252.93	250.69	254.02	267.63	1.8	1.93	287.32	250.22	245.85	249.62	262.92	368.32	236.86	258.88
Europe Ex. Eurobloc (394)	85.85	0.7	74.89	74.00	75.01	83.37	0.9	2.79	85.23	74.22	72.93	74.04	82.65	103.93	83.13	–
Europe Ex. UK Ex. Eurobloc (185)	85.50	0.7	74.38	73.70	74.70	81.98	1.3	1.65	84.22	73.35	72.67	73.78	80.89	109.21	82.62	–
Pacific Ex. Japan (383)	144.90	1.1	126.06	124.89	126.60	154.42	1.5	4.70	143.38	124.86	122.68	124.56	152.19	278.98	128.26	276.62
World Ex. Eurobloc (1992)	88.91	0.5	77.35	76.63	77.68	89.10	0.7	1.85	88.44	77.02	75.67	76.83	88.53	103.16	83.83	–
World Ex. US (1721)	181.28	0.9	157.71	156.26	158.38	157.69	1.4	2.26	179.59	156.40	153.67	156.03	155.58	221.91	175.30	203.87
World Ex. UK (2134)	253.57	0.7	220.60	218.57	221.55	230.12	0.9	1.70	251.94	219.40	215.57	218.88	228.11	298.02	234.24	255.39
World Ex. Japan (1863)	350.10	0.7	304.58	301.77	305.89	339.46	0.8	1.95	347.77	302.87	297.58	302.14	336.75	411.23	309.33	333.41
The World Index (2343)	260.75	0.7	226.84	224.75	227.82	235.99	0.9	1.87	259.03	225.58	221.64	225.04	233.99	306.56	241.30	261.71

 WITH EFFECT FROM 1/10/98: Malaysia will be removed from The World Index under Ground Rule 2.1.1

Emerging markets: IFC investable indices

Dollar terms

Sept 28 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	764.42	+2.5	-31.5
Brazil	280.79	+0.7	-41.8
Chile	404.14	[illegible]	-37.1
Colombia[1]	340.45	+0.6	-56.8
Mexico	460.53	+2.0	-41.6
Peru[2]	140.01	+2.2	[illegible]
Venezuela[3]	344.74	+7.0	-62.3
East Asia			
China[4]	28.80	-0.4	-47.9
India[7]	67.48	-0.3	-19.0
Indonesia[6]	10.35	-0.2	-69.3
Korea[5]	23.31	[illegible]	[illegible]
Malaysia	81.58		-32.4
Pakistan[9]	106.69	-0.8	-57.0
Philippines	72.10	+1.4	[illegible]
Sri Lanka[10]	64.96	+0.2	[illegible]
Taiwan, China[11]	107.84	-1.0	[illegible]
Thailand	43.33	+1.9	-7.9
Europe			
Czech Rep	45.51	+3.4	[illegible]
Greece	489.54	-0.1	+44.9
Hungary[12]	209.18	[illegible]	-33.5
Poland[13]	519.53	+1.3	-12.9
Portugal	244.73	-1.5	+16.0
Russia	[illegible]	-1.3	[illegible]
Slovakia	54.92	+1.5	-45.2
Turkey[14]	144.18	-0.7	[illegible]
Mideast/Africa			
Egypt	70.49	+0.7	[illegible]
Israel	106.33	-1.6	-12.6
Jordan	219.88	-1.4	+4.5
Morocco	182.72	-0.8	+40.3
S Africa[15]	125.84	+3.0	[illegible]
Zimbabwe[16]	119.91	+6.0	-52.4
Regions			
Composite	163.15	+0.9	-33.7
Latin America	402.16	+1.8	[illegible]
Asia	76.26	-0.2	[illegible]
EMEA	105.07	+0.8	[illegible]
Europe	123.69	-0.2	-34.4
Eastn Europe	47.05	[illegible]	[illegible]
ME & Africa	55.03	+1.6	-23.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

EUROPE

AUSTRIA (Sep 29 / Sch)

BELGIUM/LUXEMBOURG (Sep 29 / Frs.)

CZECH REP (Sep 29 / Korunas)

DENMARK (Sep 29 / Kr.)

FINLAND (Sep 29 / Mks)

FRANCE (Sep 29 / Frs.)

GERMANY (Sep 29 / Dm.)

GREECE (Sep 29 / Drachmae)

ITALY (Sep 29 / Lire)

NETHERLANDS (Sep 29 / Fls.)

NORWAY (Sep 29 / Kroner)

POLAND (Sep 29 / Zloty)

PORTUGAL (Sep 29 / Escudo)

SPAIN (Sep 29 / Pts.)

SWEDEN (Sep 29 / Kronor)

SWITZERLAND (Sep 29 / Frs.)

TURKEY (Sep 29 / Tk. Lira)

PACIFIC

JAPAN (Sep 29 / Yen)

AUSTRALIA (Sep 29 / Aust$)

HONG KONG (Sep 29 / H.K.$)

INDONESIA (Sep 29 / Rupiah)

MALAYSIA (Sep 29 / MYR)

NEW ZEALAND (Sep 29 / NZ $)

SINGAPORE (Sep 29 / S$)

SOUTH KOREA (Sep 29 / Won)

TAIWAN (Sep 29 / TW $)

THAILAND (Sep 29 / Baht)

AFRICA

SOUTH AFRICA (Sep 29 / Rand)

AMERICAS

CANADA

TORONTO (Sep 29 / Can $)
4 pm close

MONTREAL (Sep 29 / Can $)
4 pm close

MEXICO (Sep 29 / Peso)
12:30pm

NEW YORK STOCK EXCHANGE PRICES

[illegible]

- E -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
3⅜	1⅝	ECC Intl				9	2¼	2	2	
33¾	18⅞	EG&G	0.56	2.4	10	3743	23⅝	22½	23⅛	+1
36⅝	20⅛	Earthgrain	0.16	0.5	30	1254	31⅝	30[illegible]	31	[illegible]
27⅞	23⅛	East Utils	1.68	6.3	13	233	26⅝	[illegible]	26⅝	[illegible]
45⅝	37⅝	E Enterpr x	1.64	3.9	16	643	42⅝	41⅞	42	[illegible]
72[illegible]	49	EastCh x	1.76	3.4	13	1078	52⅝	50⅞	51⅝	[illegible]
88[illegible]	57[illegible]	EKodak x	1.76	2.3		15654	80⅛	77⅝	77[illegible]	-1[illegible]
99⅝	57½	Eaton	1.76	2.7	10	1339	65[illegible]	65	65⅝	[illegible]
33	25⅝	Ecolab x	0.38	1.3	26	2389	29⅝	28[illegible]	28[illegible]	[illegible]
31	25⅝	Edisint	1.04	4.0	13	10359	25⅝	25⅝	25[illegible]	[illegible]
48[illegible]	27⅛	EdwrdAG x	0.56	1.8	9	3356	30⅞	29[illegible]	30½	[illegible]
8⅝	4⅞	Ebco Group			10	1971	[illegible]	[illegible]	[illegible]	-1[illegible]
78⅛	48⅛	Elan ADR				5088	73⅛	71⅞	72[illegible]	[illegible]
28⅛	19[illegible]	Elcor Corp	0.24	1.1	15	733	22	21⅛	21⅝	[illegible]

[illegible]

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
118½	68[illegible]	Xerox x	1.44	1.6	73	15136	87⅛	84½	87½	+3
66[illegible]	45½	Xtra Corp			13	100	48[illegible]	48[illegible]	48[illegible]	[illegible]
28[illegible]	22½	Yankee Egy	1.38	5.5	20	58	25⅛	25⅛	25⅛	[illegible]
52⅛	31⅝	York Int x	0.48	1.4	39	1143	34⅛	34	34[illegible]	[illegible]
24[illegible]	6⅞	Zapata	0.28	2.7	3	743	10[illegible]	10⅛	10⅛	[illegible]
30½	23[illegible]	Zenith Nat	1.00	3.9	16	42	25⅝	25⅝	25⅝	[illegible]
8[illegible]	5[illegible]	Zenix Inc	0.70	10.8		97	6[illegible]	6[illegible]	6⅝	
14[illegible]	8⅝	ZweigFdB	1.08	9.7		801	11⅛	10⅝	11⅛	+⅛
9[illegible]	8⅛	Zweig Tot	0.84	9.7		650	8[illegible]	8⅝	8[illegible]	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 28	Sep 25	Sep 24	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8108.84	8028.77	8001.99	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.21	105.19	105.00	105.21 (28/9)	104.42 (11/5)	105.21 (28/9/98)	54.99 (1/10/81)
Transport	2803.10	2765.03	2801.24	3686.02 (16/4)	2618.75 (4/9)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	299.08	299.74	298.72	302.98 (23/9)	262.66 (8/1)	302.98 (23/9/98)	10.50 (8/7/32)

DJ Ind. Day's high 8230.37 (8127.88) Low 7985.80 (7843.08) (Theoretical)
Day's high 8160.33 (8085.44) Low 8028.17 (7909.98) (Actual)

Standard and Poors	Sep 28	Sep 25	Sep 24	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1049.88	1044.75	1042.72	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1251.16	1246.57	1242.84	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial‡	112.41	111.98	112.27	147.80 (14/7)	102.26 (10/8)	147.80 (14/7/98)	7.13 (4/8/74)
Others							
NYSE Comp.	518.03	515.00	516.59	600.75 (17/7)	490.60 (31/8)	600.75 (17/7/98)	4.84 (25/4/42)
Amex Comp.	640.12	690.99	642.38	753.67 (22/4)	585.07 (31/8)	753.67 (22/4/98)	524.38 (16/7/98)
NASDAQ Comp	1739.22	1743.59	1720.34	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	369.01	369.92	370.25	491.41 (21/4)	337.95 (31/8)	491.41 (21/4/98)	123.38 (7/12/80)

RATIOS

	Sep 25	Sep 18	Sep 11	Year ago
Dow Jones Ind. Div. Yield	1.86	1.89	1.97	1.68
	Sep 23	Sep 16	Sep 9	Year ago
S & P Ind. Div. yield	1.37	1.40	1.40	1.50
S & P Ind. P/E ratio	31.07	30.41	29.54	25.42

US DATA

MARKET ACTIVITY

Volume (million)	Sep 29	Sep 28	Sep 25
NYSE	747.480	699.520	738.050
Amex	33.470	27.591	28.218
NASDAQ	778.282	709.582	704.880

NYSE	Sep 29	Sep 28	Sep 25
Issues Traded	4,387	3,333	3,533
Rises	1,732	1,776	1,442
Falls	2,204	1,274	1,585
Unchanged	401	480	490
New Highs	27	40	38
New Lows	218	137	185

NYSE TRADING ACTIVITY
Volume : 747,480,520

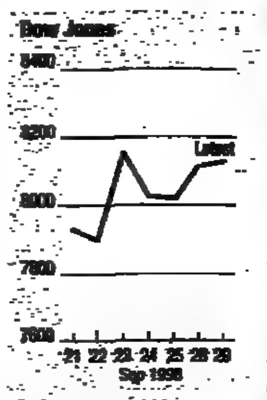
ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
Gillte	13,124,700	37⅝	−2¼
CBS Cp	12,455,800	29⅛	−2⅜
Chasell	10,748,800	46	+⅛
LucentTch	10,280,800	74¼	−3⅜
Tandy	8,873,300	39¼	−1⅛
Compaq	8,597,300	30⅜	+⅛
HealthSth	7,792,300	14⅝	−3⅝
MgSCOW	6,319,100	45⅝	−4⅝
Citicp	5,819,300	97⅛	−2⅜
Pfizer	4,980,000	47	+⅛

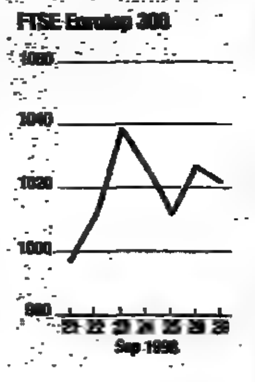
BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
Santa Fe Co	38⅛	+5⅝	+17.3
AES Corp	38⅝	+4⅝	+14.2
Wheelabr	11⅜	+1	+9.8
WestConsum	20⅛	+1⅝	+8.1
Downs			
PlantH	25¼	−7¼	−22.0
FSTPLUS	11⅜	−3⅝	−21.8
Healthsth	14⅛	−3¼	−18.7
McDonald	18	−3⅝	−17.9

NASDAQ TRADING ACTIVITY
Volume : 778,282,275

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
TeliCorp	27,425,800	87⅛	−¾
CBT ADR	19,042,700	10⅝	[illegible]
CiscoSys	18,482,500	64⅝	−1⅝
WorldCm	13,[illegible],100	[illegible]	+⅛
Intel	12,796,100	85⅝	+1⅝
Micsft	12,038,000	112⅝	+1⅛
Oracle	11,902,000	29¼	+⅛
3ComSy	11,127,300	15⅛	−3⅝
Yahoo	10,925,700	131⅝	+3⅝
PeopleSoft	9,457,700	38⅝	+2⅛

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
[illegible]	18⅝	+2⅛	+14.5
Alyonic	28⅝	+3⅝	+14.2
SmythMed	20⅛	+2⅛	+10.9
EagUSA	14⅝	+1⅝	[illegible]
Downs			
Ganvest	15⅛	−6⅝	−29.5
CBT ADR	11⅛	−4	−28.3
Symantec	11⅛	−3⅝	−24.7
CathOne	21⅝	−5⅛	−21.4





JAPAN

	Sep 29	Sep 28	Sep 25	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	13821.43	13908.37	13723.85	17264.34	13597.30	38915.9	85.25

Day's high: 13882.35. Day's low: 13533.02.

TOKYO TRADING ACTIVITY
Volume : 380,000,000

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
LgDmCr	16,644,000	14	
NKK	16,358,000	68	−3
Nichols	15,070,000	91	−8
NipSd	10,309,000	300	+10
Sakura	8,338,000	213	+4
Tohoku	7,070,000	491	+20
SanwTrB	7,050,000	200	
Sumitm	6,188,000	142	−3
FujiBk	6,157,000	316	−12
Sochu	[illegible]	191	−10

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
AsanBk	420	+33	+8.5
Aoyama	2925	+215	+7.8
Downs			
Inteco5	175	[illegible]	−18.7
ToyoTB	319	−56	[illegible]
Yodsm	214	[illegible]	−10.8
JpMtCh	154	−16	−9.4
Isuzu	118	−11	−8.7
MzSprt	370	−35	−8.6

FRANCE

	Sep 29	Sep 28	Sep 25	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3337.05	3337.84	3310.59	4388.48	2882.54	4388.48	984.81

Day's high: 3365.27. Day's low: 3281.11

PARIS TRADING ACTIVITY
Volume : 885,380,180

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
FrTele	2,569,852	350	−13
BNP	2,329,457	340	+18
Usinor	2,015,371	65	−4.5
Alctel	1,920,807	518	−9
RhonPA	1,240,659	247	+7
Axa	1,025,030	545	−5
EllAqu	885,425	715	−3
Rhodia	833,347	81.9	+5.2
Renault	788,727	244	−6
SocGen	740,782	885	−3

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
Dollfus	62.8	+6.8	+12.1
Synthl	1100	+70	+6.8
Rhodia	81.9	+5.2	+6.8
PechnyA	192	[illegible]	+6.7
Downs			
ErBCts	870	−60	−6.4
Bongrn	2496	−202	−7.5
Usinor	66	−4.5	−6.4
ThmCSF	179	−11.1	−5.8

GERMANY

	Sep 29	Sep 28	Sep 25	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4578.27	4653.94	4581.58	6171.43	4087.28	6171.43	931.18

Day's high: 4671.15. Day's low: 4575.03.

FRANKFURT TRADING ACTIVITY
Volume : [illegible]

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
Dt Bk	474,365	91.48	−2.22
Cmzbk	379,841	47.2	−1.9
Luftns	373,780	34.25	−1.45
Dmlr	382,382	143	−1.3
Veba	342,906	88.6	[illegible]
Bayer	337,444	65.1	−0.5
VW	315,112	124.6	+4.6
BASF	293,094	64.2	
RWE	285,035	91.3	−5.2
Mannsm	258,915	158.4	+6.3

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
Hbtecm	215.5	+10.5	+5.1
HdlDck	124	+6	+5.1
Varta	290	+14	+5.1
Mannsm	158.4	[illegible]	+4.2
Downs			
WellaPf	1210	−95	−7.3
Viag	1133	−81	[illegible]
RWE Pf	54	−3.7	−6.4
RWE	91.3	[illegible]	−6.0

UK

	Sep 29	Sep 28	Sep 25	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5108.7	5093.5	5081.0	6179.00	4890.30	6179	986.9

Day's high: 5109.4. Day's low: 5042.7

LONDON TRADING ACTIVITY
Volume : [illegible]

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
Centrica	18,699,850	117¾	−¼
Coats Viyella	17,941,400	34	+1½
Vodafone	16,925,930	698	+3
S'Kline Bchm	18,495,180	673½	−8
Shell	16,494,830	356	−6
Aggregate Ind	14,934,900	59½	+2
Br Telecom	13,187,830	787	+3
Br Petroleum	12,727,930	889½	+2½
Pilkington	12,184,370	60½	−2½
Tesco	11,899,880	163	+2

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
Alpha Airports	47	+8	+20.5
Stellwise	272½	+42½	+18.5
Bearing Pwr	13½	+2	[illegible]
Baxter ISG	192½	+23½	+13.2
Downs			
Blakes Clthg	8½	−6	−40
JKX Oil & Gas	11	−6½	−37.1
Feedback	18	−7	[illegible]
Airtech	15½	−4	−20.5

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	1061.00	1058.50	−8.70	1066.50	1054.50	85,546	381,835
Mar	1066.00	1068.50	−8.50	1073.50	1065.00	283	6,676

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	13900.0	13770.0	−180.0	13950.0	13540.0	28,646	172,732
Mar	13810.0	13800.0	−230.0	13810.0	13690.0	35	6,280

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Sep	3317.0	3304.0	+4.0	3364.0	3265.0	185,082	140,073
Oct	3300.5	3342.5	+4.0	3375.0	3278.5	130,238	95,710

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	4674.0	4835.0	−72.0	4894.0	4592.5	21,847	85,296
Mar	4805.5	4874.5	−76.0	4702.5	4658.0	446	1,079

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Oct	603.00	608.00	−7.50	613.00	602.50	15,[illegible]	173,514
Nov	600.00	612.00	−4.75	612.00	609.00	236	530

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	6175.0	6025.0	−135.0	6180.0	5995.0	20,456	137,691
Mar	–	6054.0	–	–	–	–	3,108

WORLD MARKETS AT A GLANCE

Country	Index	Sep 29	Sep 28	Sep 25	1998 High	1998 Low	Yield	P/E
[illegible]								

THE NASDAQ STOCK MARKET

4 pm close September 29

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close September 29

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Bourses show nerves ahead of Fed decision

WORLD OVERVIEW

Share markets paced about nervously most of the day, waiting for a signal on interest rates from the US central bank, *writes Jeffrey Brown.*

By recent standards, Asia was subdued and although Zurich and Frankfurt continued to notch up steady losses, investors' mood in the far east was widely mirrored in Europe, both in equity and bond markets.

The dollar trended lower as the foreign exchanges clung to the view that the Federal Reserve open market committee would shortly sanction a reduction for the Fed funds target rate, possibly of between 50 and 25 basis points.

If equity market activity was dull though, the day was not without its broad shocks, which came in the shape of profit warnings from Hoogovens, the Dutch steel giant, and Switzerland's Saurer textile machinery group. Coming in the wake of similar warnings from Shell, Philips and KLM, Hoogovens' statement was another blockbuster and it cast a deepening cloud over a sector already seen by many analysts as chillingly exposed to the forces of recession.

The steel industry, a lead indicator for the world industrial economy, is obviously finding it hard to adjust output to demand at a time when the latter is being distorted by distress sales of steel from Asian producers.

Yet the warning from Hoogovens sharpens up the theory that global demand trends are slowing dramatically. Less than two months ago, Hoogovens was confident of solid earnings growth in 1998; it is now predicting a flat year, at best.

Analysts' reactions yesterday were savage, cutting the consensus earnings forecasts for the Dutch group for next year by more than half. The shares tumbled 8.8 per cent. Usinor of France dipped 6.4 per cent and Germany's Thyssen lost 4.6 per cent.

For stock markets, these European warnings constitute particularly bad timing. With the US third-quarter reporting season due to start in a few weeks' time, the market spotlight is likely to increasingly focus on profit trends.

Although most brokers feel that global earnings downgrades have further to run, ABN-Amro, in its latest European strategy note, suggests that equities are now "near a base and increasingly represent reasonable long-term value".

ABN makes the point that bond-equity valuations are reaching down to historic extremes in favour of shares. At the same time, stronger consumption should mean that European growth is still relatively robust in 1999.

London market, Page 34

Dow drops after cut in interest rates

AMERICAS

US shares plunged soon after the Federal open market committee announced a quarter-point cut in the key Federal Funds rate, *writes John Labate in New York.*

The interest rate cut was widely expected but many in the market had hoped for a stronger half-point cut. Stocks were generally calm ahead of the mid-afternoon announcement, with the three main indices rising by midday. Some speculated that the Fed could ease rates again at its next meeting in mid-November.

Immediate investor reaction to the Fed move was sharp, with the Dow Jones Industrial Average down 80 points soon after the committee's decision.

By mid-afternoon, the market had recovered a bit. The Dow was down 49.95 to 8,058.89 while the Standard & Poor's 500 fell 3.42 to 1,045.27.

The Nasdaq composite lost 10.06 to 1,728.16, and the Russell 2,000 index of small-cap shares fell 3.88 or more than 1 per cent to 364.13.

Two high profile stocks put a drag on sentiment. Shares of Viacom, the entertainment company, plunged more than 14 per cent or $9⅛ to $53⅝ after Deutsche Morgan Grenfell and Merrill Lynch lowered their ratings.

Goodyear Tire dipped $4¼ or more than 7 per cent to $51¼ after the company lowered expectations of third-quarter earnings and announced a round of job cuts.

Shares of Cendant fell more than 4 per cent or $⅝ to $12⅞ after the company restated its results back to 1995.

Gillette, the global consumer products company, fell $2 or more than 5 per cent to $37⅞ after J.P. Morgan cut its rating.

Retail stocks weakened with Federated Department Stores down $1⅞ to $37⅞ after ST Alex Brown cut its rating to "market performer". Wal-Mart lost $2⅛ to $58⅝ despite a raised rating by the same firm.

US Treasuries were mixed ahead of the Fed announcement, with volatility picking up after the announced rate cut. The benchmark long bond rose ⅞ to 105⅞, yielding 5.112 per cent.

In the telecoms sector, Bell Atlantic rose $1⅛ to $49 after it announced a restructuring and analysts at Dresdner rated the company a "buy". BellSouth also rose strongly, up $3⅛ or more than 4 per cent to $76⅛.

TORONTO edged lower at midsession as investors played a wait-and-see game ahead of the Federal open market committee meeting. The TSE-300 composite index was 23.18 lower by midday at 5,846.10 in weak volume.

During morning trade, seven of the 14 market sub-indices were in negative territory, led by weakness in the transportation sector. In that group, Air Canada lost 35 cents to C$5.75.

Banking issues overcame early weakness as the market awaited the Fed announcement. Royal Bank of Canada edged 30 cents higher to C$63.10.

IMF set to disappoint

Latin American countries seeking a financial rescue plan from this week's IMF and World Bank annual meetings are likely to be disappointed, according to IMF officials.

For at best, finance ministers will go home with assurances that the IMF will step in with a credit line for Brazil along with an IMF programme requiring tough austerity measures to reduce the country's enormous deficit.

Markets across the region saw trade slow to a trickle ahead of the US federal open market committee's decision on interest rates.

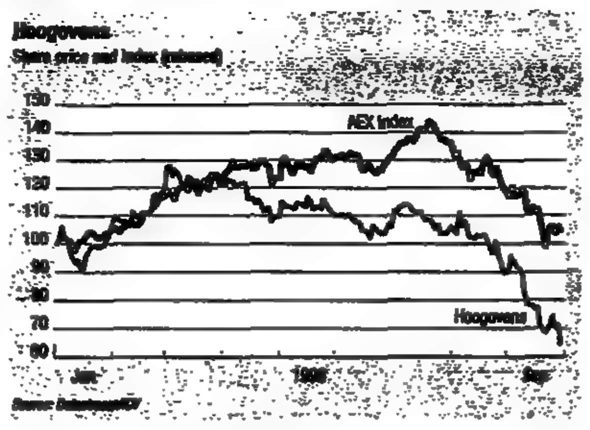
In SAO PAULO the Bovespa index edged 28 points higher to 6,850 at midsession. Analysts noted, however, that equity investors continued to be concerned over a renewed wave of capital flight.

Some $739m was reported to have left the country's foreign exchange markets on Monday, the biggest dollar outflow for two weeks. More than $30bn has left Brazil since the start of August.

BUENOS AIRES' Merval index eased 0.46 to 399.26 at midsession while **SANTIAGO** was flat with the IPSA index 0.13 higher at 66.50. **MEXICO CITY** was trendless with the IPC index 6.8 higher at 3,723.98.

Zurich dips on financials sell-off

EUROPE



Shares in **ZURICH** fell more than 2 per cent, under pressure from a financials sell-off that was compounded by the weaker start on Wall Street.

The SMI index registered a loss of 130.8 at 6,018.9.

Textile machinery and components maker Saurer crashed 15 per cent after the the company said it expected lower 1998 profits. The registered shares lost SFr135 to close near the day's low at SFr760.

The company said a collapse in orders for textile machinery since the spring meant 1998 net profits would grow only slightly above the SFr90m posted for the first eight months, well below last year's SFr121m.

UBS, which said it would publish the findings of an internal audit by the end of the week, lost SFr23 to SFr315.

The audit is expected to shed light on the bank's costly involvement with Long-Term Capital Management, the troubled US-held fund. CS Group lost SFr4.50 to SFr167.75.

Among the pharmaceuticals, Roche certificates lost SFr510 to SFr14,990. Novartis fell SFr30 to SFr2,257 even as CSFB reiterated its "buy" recommendation and set an end-1999 price target of SFr2,615.

PARIS ended little changed after another fairly volatile session. The CAC 40 index closed off 0.59 at 3,337.05 in turnover of FFr13bn.

Usinor slid after a profits warning from Dutch steel rival Hoogovens, dipping FFr5.50 to FFr66.00 and Thomson-CSF was also weak, falling FFr11.10 or 5.8 per cent to FFr179.

France Telecom fell FFr13.00 to FFr350 for a two-day slide of 5.3 per cent as investors fretted about the possibility of a big stock over-hang with the government teeing up the sale of further state-owned shares.

Selected banks supplied solid support, rallying from recent lows following a positive note from Lehman Brothers.

BNP gained FFr18.00 or 5.6 per cent to FFr340 and Paribas FFr11.50 to FFr341.5.

AMSTERDAM took a stern profits warning from steel leader Hoogovens on the chin and fell 11.50 to 957.89 on the AEX index.

Hoogovens fell precipitously after switching from a forecast of good growth this year to unchanged profits. Amid a round of savage earnings adjustments by brokers, the shares came off Fl 5.20 at Fl 54.00.

KLM, which warned of profits weakness on Friday, retreated a further Fl 2.80 to Fl 51.40 for a two-day decline of 7 per cent.

Hopes for a takeover battle sent retailer KBB up Fl 12.60 or 8.9 per cent to Fl 155. Unlisted WE International has offered Fl 160-165 a share, topping the Fl 145 maximum being put up by Vendex. Vendex shed Fl 3.70 at Fl 72.50.

FRANKFURT was burdened by further weakness in the utilities during a day of cautious trade as the market adjusted to the new government. By the close, the Xetra Dax index was 77.28 or 1.7 per cent lower at 4,600.33.

Utilities remained out of favour on worries that the new Greens-included government would push to end atomic power use and impose taxes on energy consumption.

Viag, whose Bayernwork business draws a large proportion of its electricity from nuclear power plants, lost DM103 to DM1,145. RWE fell DM6.51 DM80.99 and Veba droped DM3,47 to DM89.03.

Among the industrials, Thyssen lost DM13.90 to DM291.10 and Krupp was DM12 lower at DM218 in the wake of the earnings warning by Dutch rival steel maker Hoogovens.

Mannesmann put on DM6.50 to DM157 and Preussag jumped DM23.50 to DM594 on an earnings upgrade from BNP.

MILAN was dominated by activity in the banking sector, and the Mibtel index edged marginally lower, falling 9 to 19,288.

Banca Commerciale Italiana closed down L252 or 2.4 per cent to L10,201 after a roller-coaster day. The shares initially rose almost 10 per cent before a board meeting, but later fell 5 per cent after news that Luigi Fausti, its chairman, was stepping down.

Hopes that the departure of Mr Fausti, who had opposed BCI's merger with Banca di Roma, pushed Roma higher. The shares, the most active of the day, closed up L145 or 5.3 per cent to L2,889.

Parmalat, the dairy products group, rose L102 or 4 per cent to L2,572 on strong first-half profits.

MADRID was flat as investors waited for a possible move on interest rates in the US. The general index rose 0.76 or 0.1 per cent to 716.30.

BCH led the most actively traded issues, rising Pta35 to Pta1,390, followed by Banco Bilbao Vizcaya, which gained Pta5 to Pta1,665.

Telefónica, which has been regaining ground after a sell-off on Latin American pessimism, rose Pta40 to Pta5,410.

Iberdrola fell Pta40 to Pta2,395 after BBV sold 0.5 per cent of its shares to institutional investors at Pta2,375 per share.

HELSINKI closed down on weakness in Nokia, and the HEX index ended down 43.82 or 1 per cent at 4,263.62.

Nokia tracked its ADR, which fell at the opening of Wall Street. The shares closed down FM3 to FM425.

Raisio, the foods group, jumped FM7.10 or 10 per cent on an upgrade to a "strong buy" at CSFB.

CSFB said that in six months' time, Benecol, its proven low-cholesterol margarine, may have been launched in the US as well as some European markets.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

Profit-takers weaken Jo'burg

SOUTH AFRICA

Shares in Johannesburg moved lower as the profit-takers homed in on selected sectors, notably financials. The all share index ended off 1.9 per cent at 5,194.4.

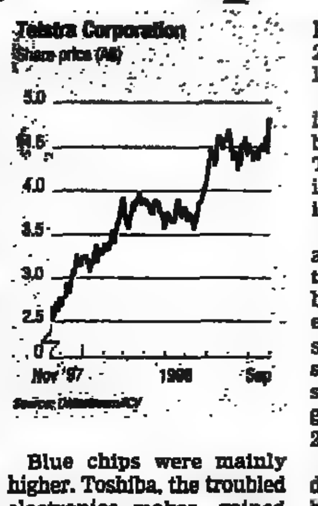
Industrials slipped 2.5 per cent to 5,893.7 and financials, which met with heavy selling, retreated 2.9 per cent to 7,679.4. Standard Bank declined 8.1 per cent to R13.10.

Golds stayed volatile, rebounding on a better day for bullion. The golds index advanced 6.5 per cent to 1,166.6.

Leasing collapse hits Nikkei

ASIA PACIFIC

The collapse of Japan Leasing Corporation, an affiliate of the troubled Long-Term Credit Bank, and its motor leasing unit, spurred further anxiety about the financial sector and helped to push TOKYO lower, *writes Alexandra Harney.*



The Nikkei 225 average pared some of its early losses to close down 87.94 at 13,821.43, having traded between 13,952.35 and 13,553.02. Turnover was weak at 380m shares traded in the first section.

Momentum was strongly negative, with declining shares outnumbering rising issues 760 to 367 with 142 unchanged.

Investors were wary of the instability in the financial sector and profitability problems in blue-chip electronics companies. Shares in LTCB topped the market in volume but closed unchanged at Y14.

Fuji Bank was down Y12 to Y318, Daiwa Securities Y14 to Y335 and Nikko Securities Y18 to Y317. But Nomura Securities, the biggest broker, was up Y5 to Y1,035.

Blue chips were mainly higher. Toshiba, the troubled electronics maker, gained Y20 to Y491. Mitsubishi Electric lost Y15 to Y213 but Toyota Motor, the largest carmaker, was up Y30 to Y3,130.

Nippon Steel, the number one steel maker, gained Y10 to Y200 on news of its sale of a semiconductor subsidiary to a Taiwanese group. But rival NKK was down Y3 to Y69 as the second most heavily traded stock.

Other market indices were mixed. The Topix index of first-sector stocks was down 0.62 to 1,062.9, and the Nikkei 300 average gained 0.1 to 208.23. In Osaka, the OSE lost 27 to finish at 14,734.

SYDNEY continued to improve, helped by heavy buying of telecoms leader Telstra. The All Ordinaries index ended up 12.0 at 2,603.6 in turnover of A$916.5m.

Telstra hit a fresh high amid talk that the full privatisation of the group could be abandoned. "If the weekend election proves inconclusive, further issues of Telstra stock may be put on ice," said one broker. The shares gained 20 cents to A$4.81 in 21.8m shares traded.

Banks were mixed. NAB dipped 37 cents to A$20.66 but Commonwealth added 34 cents at A$20.13. Among resource leaders, BHP shed 8 cents to A$12.37.

SEOUL pushed higher on a wave of demand for bank shares after unions cancelled plans for strike action. The Kospi index rose 6.60 or 2.2 per cent to 312.33.

HONG KONG closed lower, already discounting a cut of 25 basis points in US interest rates at the Federal Reserve policy meeting.

The Hang Seng index lost 108.43 or 1.4 per cent to finish at 7,837.61 in turnover that shrank to HK$4.4bn as investors became increasingly cautious before holidays tomorrow, Friday and next Tuesday.

The market fell on the heels of index heavyweight HSBC, which dropped HK$3.50 to HK$141.50. Hutchison closed 80 cents lower at HK$39.70 and Cheung Kong lost 70 cents to HK$34.80.

KUALA LUMPUR lost 2.5 per cent, with investors distracted by the court appearance of Anwar Ibrahim, former finance minister, charged with corruption and alleged sex crimes.

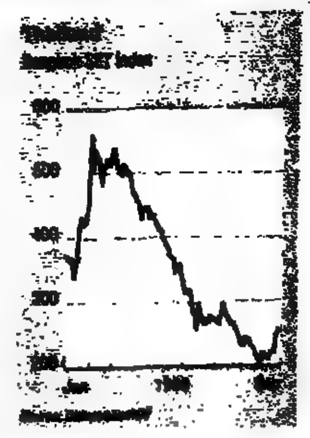
The composite index lost 9.75 to 377.52 in very thin volume of 119m shares.

Privatised rice importer Padiberas Nasional gained 6 cents to M$1.17 on the view that the company would benefit from its close government links.

KARACHI climbed 3.1 per cent on news that a panel of US legislators had voted to give President Bill Clinton flexibility in dealing with US sanctions against India and Pakistan for conducting nuclear tests by allowing a one-year waiver of the sanctions. The KSE-100 index rose 38.54 to 1,113.35.

EMERGING MARKET FOCUS

Bangkok rally boosts confidence



False dawn or off to the races? Investors were pondering this question as the Thai stock market took a waiting-for-Greenspan breather yesterday, the benchmark SET index closing down 0.18 at 255.35 in thin volume.

In the previous four sessions, stocks had risen 14.5 per cent and another 50-point rise would have extended the gain to 20 per cent.

The reasons for the rise offer some hope that the market has already touched bottom. The dramatic fall in interest rates – lending rates have come down at least four percentage points to around 14 per cent – coupled with a stable currency is boosting confidence and may slow the growth of non-performing loans.

In addition, lower deposit rates, which are now in single digits, are providing an incentive for local investors to plough back into the stock market. On Monday, the last day of the rally, local retail investors accounted for 74 per cent of market turnover, compared with just 20 per cent for foreign investors.

With such little volume in the market, a tiny inflow can have a dramatic effect – many investors made more on the market last week than they would on a one-year bank deposit.

Some foreigners have also been nibbling but almost by default. Malaysia and Indonesia are off traders' maps while many analysts believe Singapore and the Philippines still have far to fall.

SG Securities recently shifted its Thai position to "overweight" though Neil Saker, its senior regional economist, said this was not so much because Thailand is expected to see a quick recovery but "because everyone else is so bad".

"It's almost as if Thailand is seen as a defensive play," added another analyst.

With Thailand mired in recession and most companies still posting losses, anyone who has bought in the most recent rally is unlikely to sell on gloomy economic news as they are already prepared for it. But few are convinced that the market is ready to make the next push.

Debt restructuring remains the key. That will allow banks to clean up their balance sheets and begin lending again, while letting analysts quantify the losses and provide their clients with a clearer road map going forward.

But debt restructuring has been slow in Thailand. The government has promised to push the process forward by passing amendments to the bankruptcy law and a new foreclosure law by the end of next month. Those promises could now be in jeopardy with an impending cabinet shake-up that could see the ruling Democrat party lose its stranglehold on economic policy.

In the meantime, brokers Warburg Dillon Read have an innovative investment strategy for those who want a go at the Thai market.

They call it triple seven: they predict that if you buy 10 stocks, then assume that three of them will go bankrupt, the other seven will triple in value.

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EMERGING MARKET FOCUS

Bangkok rally boosts confiden

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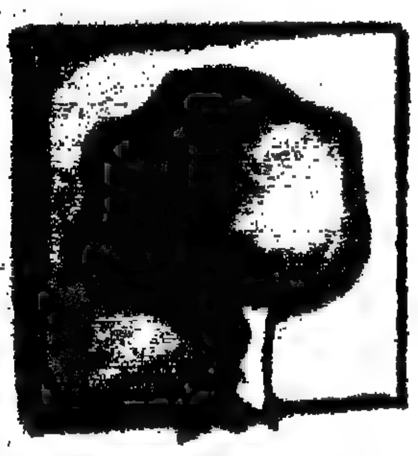


FT telecoms

FINANCIAL TIMES REVIEW OF THE TELECOMMUNICATIONS INDUSTRY

Wednesday September 30 1998 PART 1

Continuing growth in demand for data transmission is the principal driver for change within the industry. **Alan Cane** reports

Finding partners becomes priority

Mergers, acquisitions and strategic alliances continue to dominate the global telecommunications picture as operators, manufacturers and service providers jostle for position in an increasingly crowded landscape.

If it looks complicated from the outside, it is almost as confusing for those in the industry itself. The growth in demand for data transmission, and in particular for internet services, remains the principal driver for change. For example, it is now provoking mergers among telecoms manufacturers in a mirror-image of the activity among operators.

But it is all far from comfortable for the traditional players. As Pekka Tarjanne, outgoing secretary-general of the International Telecommunication Union, noted recently: "The internet has grown up out of the young, dynamic and unregulated culture of the computing sector. By contrast, the telecommunications industry is sober and highly regulated, moving at a slower pace to implement long-term network investment strategies."

The traditional telecoms industry can throw up its share of surprises, however. The past few torrid months have seen some spectacular mergers. AT&T, the largest US long-distance carrier, shook off its lethargy of recent years to play a leading part in two of the most significant.

In June, it announced its intention to buy Telecommunications Inc., the largest cable television operator in the US, for about $45.4bn. Then, in July, it announced it was forming a joint venture, expected to generate annual revenues of more than $10bn, with British Telecommunications, the dominant UK operator. Owned equally by the two companies, the venture will combine the international assets and operations of the two companies.

Just as important, the two companies said they were working together to develop a new global data network which would operate according to the rules of the internet.

These deals, however, are only the most dramatic examples of the consolidation which is now reshaping communications industries across the world. As the old demarcation lines are destroyed by market liberalisation, the advance of technology and by globalisation, there is a growing realisation that no company can be fully competitive on its own. The search, therefore, is for partners with complementary regional advantages, skills or geographic assets.

AT&T's deal with TCI is an example of the first category. It should eventually give the long-distance operator direct connection to about one-third of US homes via TCI's cables and enable it to outflank the local operators – the regional Bell operating companies (RBOCs).

The logic is that it is both expensive and difficult to break into a market where the incumbent is well entrenched: far better to merge with an electronic Trojan Horse inside the enemy's defences. It was difficulties in opening up the US local market which caused friction between British Telecommunications and its former merger partner, MCI of the US, and allowed WorldCom to make off with MCI under BT's nose.

In the UK, similar logic can be seen in the creation last year of Cable and Wireless Communications, where the union of a long-distance operator – Mercury Communications – with three cable companies is already providing a more telling threat to BT's dominance than the individual partners.

In the US, substantial consolidation has already taken place among the RBOCs, reduced in number from seven to four over the past two years. Earlier this year, SBC Communications announced a $66bn merger with Ameritech. Bell Atlantic and GTE Corporation followed suit shortly afterwards.

All of this has been made possible by the liberal environment engendered by the 1996 US Telecommunications Act. Critics argue, however, that consolidation is against the spirit of the legislation which was designed to benefit consumers by fostering competition on a grand scale.

Instead, they say, it seems more likely that the communications environment will be dominated by a few giant telecoms groups. This ignores the fact that a new breed of operator – WorldCom or Qwest of the US, Colt based in the UK or RSL Communications, for example – using the most advanced technologies can build more efficient networks than conventional operators at a fraction of the price. The old arguments for size to provide the necessary economies of scale have been effectively demolished.

"Voice over the internet," a laboratory curiosity only a few years ago, now represents a potent threat to conventional operators' revenues. Essentially, the technology snips voice calls into discrete packets of data and despatches them over the internet to their destination where they are reassembled as coherent speech. Using voice over the internet subscribers can make international calls for the cost of a local connection.

The demand for internet technology is putting new pressure on telecoms manufacturers such as Lucent, Northern Telecom and Alcatel. They are generally weak in data transmission skills and face a loss of business to computer companies such as Cisco and 3Com. Lucent, formerly the manufacturing arm of AT&T, and Cisco held and abandoned merger talks earlier this year. Now they are competing bitterly for the same customers.

Lack of data expertise explains the eagerness of some traditional manufacturers to acquire data communications groups. Northern Telecom, for example, the leading Canadian manufacturer, bought Bay Networks of the US for about $7bn. John Roth, Nortel chief executive, says: "We are totally focused on working with our customers to launch and lead a new era of networking."

The company has since undergone substantial restructuring, setting up one new division to provide large carriers with data transmission technology and another to supply data networks for business customers.

Alcatel, the revitalised French group which once led the world in telecoms manufacturing, bid for DSC Communications in June, valuing the US manufacturer at about $4bn. Serge Tchuruk, Alcatel chief executive, has made clear he intends to turn the French group into a leading force in the high-speed data transmission business.

Operators, however, have to defend and expand their traditional business while making provision for the new. The importance of global assets was emphasised by AT&T's decision to form a joint venture with BT. To do so, it will have to pull out of its existing international alliances, WorldPartners and AT&TUnisource. The deal with BT, however, will give it significantly more control over the quality of service it is able to offer its international customers.

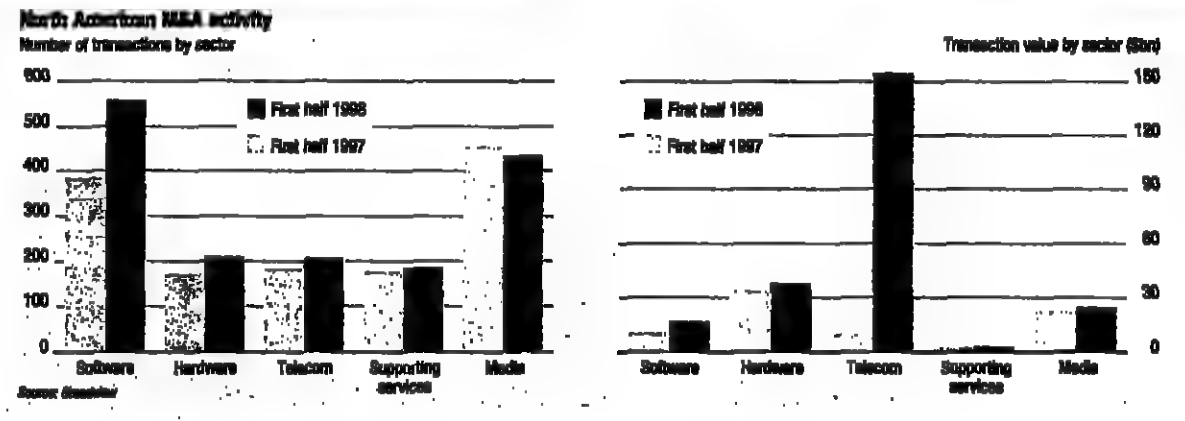
BT, after the disappointment of the failure of its planned merger with MCI, will be able to rely on its US partner to distribute its advanced telecoms services throughout North America.

Cable and Wireless, the UK's second-largest telecoms group, takes credit this year for the most opportunistic acquisition. When regulators in the US and Brussels told MCI it had to sell off in total its internet interests if its merger with WoldCom was to be allowed, C&W moved swiftly to secure the prize in a deal valued at about $1.75bn.

C&W acquired MCI's internet backbone, the computers which direct the internet traffic and contracts with thousands of internet service providers and US corporate customers. In one move it catapulted itself into the big league of internet operators.

Consolidation in the industry is far from complete. In the next few years the plethora of new operators in Europe will be pared down as call charges decline and competition intensifies. In particular, the merging of mobile and fixed wire operators to provide full service telecoms companies has hardly begun.

North American M&A activity



Source: Broadview

Privatisations

Governments around the world have been selling stakes in their telecoms coumpanies. The focus is now on secondary issues

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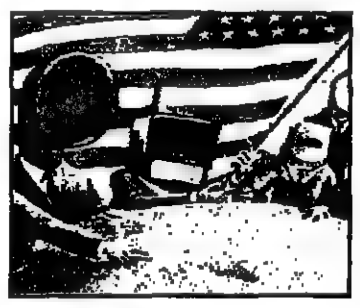
Telecoms in business

FT writers report on the technological developments in a fast-changing industry, from intelligent networks to value-added services

Pages 6-9



The Americas

Deregulation around the world has led to US companies shifting their largely domestic gaze. FT writers report from North, Central and Latin America

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VIEWPOINT • By Alan Cane

The culture gap

The internet is the model for convergence of telecoms and computing

The convergence of telecommunications and computing is today more a matter of anticipation than reality. This does not mean it will not happen and happen soon, but that the cultural differences which hold the two worlds apart remain as strong as at any time in the past 50 years.

The internet, culturally separate from both, is nevertheless the model for convergence. A broad range of organisations are now building new global data networks which obey internet rules. The actuality of convergence will force both telecoms operators and manufacturers to look afresh at their basic assumptions.

The telecoms operators' guiding principle since the turn of the century has been an unyielding respect for the integrity of the network. This has resulted in what Roel Pieper, newly-appointed executive vice-president at Philips Electronics, described at a recent conference as "perfect stability".

Telecoms systems rarely fail. They are based on tried and tested technology from established manufacturers.

By comparison, the computer industry lives with a high rate of systems breakdown and failure. Levels of systems availability that would be regarded as unacceptable in telecoms are the norm in data processing. PCs, the heart of information technology, "crash" with a frequency that would drive their owners to despair if they were used to make telephone calls.

The conference at which Mr Pieper was speaking, Etre, held earlier this month in Estoril, Portugal, is essentially a computer conference. It is changing, however, as the significance of telecoms in the new information economy become apparent. Most of the manufacturers exhibiting there were offering internet-related products. Most were innovative, software-based and not currently available from traditional manufacturers.

Traditional operators, however, are among the most active of those groups building the new data networks. To create such a system was one of the most important objectives of the alliance announced earlier this year between AT&T and British Telecommunications. As these networks grow in size and influence, their operators will seek innovative products to run on them. This will bring them into contact with software companies which cannot promise "perfect stability". Many, after a period of growth characterised by an accelerating share price and stratospheric price/earnings ratio, falter and fail.

Another speaker in Estoril, Mitchell Kertzman, chief executive of the applications software company Sybase, provided a compelling analysis for the failure of these companies which put much of the blame on the careless use of stock options to reward employees.

He argued that internet companies seem to be valued by the amount they spend, rather than traditional methods. This is because of a perception that market share is critical in a fast-evolving new market and that spending is the key to market share. The share price, at this point, is driven by "momentum investors" who will invest at virtually any price as long as the growth of the company maintains its upward trajectory.

The danger, of course, is that if business targets are missed by the smallest degree, momentum slows and the stock falls. The practice of rewarding staff with stock options means that management has a dual objective to maintain growth – to satisfy momentum investors and to reassure staff with stock options.

What happens too often, Mr Kertzman claims, is that customers are offered increasing discounts to ensure the company makes its targets. It is, of course, an unsustainable ploy. Targets are missed, momentum investors bale out, and the stock price begins its death spiral. Staff, acting as momentum investors with their own careers, leave. The company hits the wall.

Telecoms operators will increasingly have to deal with these less-than-perfectly-stable software houses as they seek new and better applications with which to tempt their customers.

The internet will, over the next few years, stabilise and offer businesses a business class service. It is critically important that applications on the network are no less reliable.

ON THE LINE: Rich McGinn, chairman and CEO of Lucent Technologies • By Jola Shillingford

When networks link up...

The head of Lucent Technologies explains his ingredients for success in a new world and the challenges his US company is likely to face

Rich McGinn: 'No one has the monopoly on genius'

For adrenalin junkies, there's never been a better time to work in telecoms, says Rich McGinn, head of Lucent Technologies, the US telecoms equipment company. "Along with tourism, telecoms is one of the largest growth industries in the world."

Analysts predict that Lucent's financial year, which ends today, will see the company with sales worth $30bn – representing growth of 20 per cent on the previous year. "That's not bad growth for a company as large as Lucent," says Mr McGinn.

He believes the telecoms industry will evolve into a "network of networks", with cable television networks, broadband and fibre-optic networks all linked together. Both data and voice will travel over this network, but they will be broken into small chunks so that many calls can be sent down the same line.

This approach is known as packet-switched as opposed to traditional telecoms networks, which are circuit switched – keeping a whole circuit open for each call.

Mr McGinn believes the ingredients for success in this new world are: good network management software, fibre-optics, asynchronous transfer mode (ATM) technology and packet-switching products that can handle internet protocol (IP).

Lucent is a market leader in many of these areas. In optical networking it is due to deliver the first dense wave division multiplexing system that can split a single fibre optic line into 80 channels, and the company recently beat US rival Ciena to a large optical networking order from a US telecoms carrier.

For internet protocol networks Lucent has the PacketStar range of products launched in May. These allow internet service providers to prioritise traffic over their networks so that urgent messages get there faster. MCI was the first customer to try the product.

However, what Mr McGinn describes as the "confluence of computers and telecoms" is creating new competitors for companies such as Lucent. Telecoms equipment companies already face price pressures from former telecoms monopolies which are having to cut their own prices.

But now computer networking companies such as Cisco, Ascend Communications and Bay Networks (recently snapped up by Nortel of Canada) are selling their IP routing products not just to large companies but also to telecoms operators.

Lucent has a number of options, not mutually exclusive. It can use Lucent Bell Laboratories (once part of AT&T Bell Laboratories) to develop better products – current research and development spending is $3.5bn a year – or it can buy a company with the expertise it needs. In fact, a tax bar that prevents Lucent from participating in low-cost mergers through the "pooling of interests" ends today.

Mr McGinn is not ruling out buying a company with IP expertise. He says: "If there are companies consistent with our strategy that can accelerate our progress, we will take them seriously."

Whatever happens, Lucent already has some knowledge and patents in the IP area. It is currently suing Cisco and Newbridge Networks over alleged patent infringement and says it has settled with several other companies.

Mr McGinn believes "no one has the monopoly on genius", and he bought an ATM company – Yurie Systems – when he wanted leading products for the high-speed ATM networks that can transport voice, data and video. Since Lucent was spun off from AT&T two years ago the company has spent several billion dollars on acquisitions, including SDX Business Systems, Prominet (which has Gigabit Ethernet) and Livingston Technologies, a specialist in remote access.

Mr McGinn, whose first job was as a telecoms salesman for Illinois Bell before joining AT&T in 1978, is optimistic about the future. He points to the huge number of additional lines being bought by US households. Many now have four, he says, with lines for fax machines and the internet.

The McGinn household, for example, has 12 phones connected to a switchboard. Some of these are wireless extensions and work outside the house, too. There is even a line not connected to the switchboard so that it will still work if there are power failures during storms.

Outside the US, Mr McGinn sees China providing tremendous growth, with 20m new lines each year. He says the Chinese market is very demanding for telecoms suppliers, not just because of the capacity required but because it wants to benefit from the latest technological advances.

Mr McGinn likes staff to beat the deadlines he sets: he is an appreciative man, and is clearly much happier talking about what his staff have achieved than his own achievements. He has trouble thinking of the biggest challenge of his career, and when a colleague suggests that it might have been helping to spin off Lucent from AT&T, he says "but that was easy".

Early this month Mr McGinn was in Paris to tell Lucent staff based in Europe about a new issue of employee share options. He says: "I want everyone, including those on the shop-floor, to view the company in the same position as other shareholders."

He is also keen on having a diverse workforce, with different backgrounds and viewpoints. Forty per cent of senior managers come from outside AT&T. And although Mr McGinn worked for AT&T for 18 years, he says "we didn't want staff who only saw the world the way telecoms carriers see it. Otherwise we would miss opportunities.

"It is no coincidence that CNN, the global news network, wasn't thought up by a conventional TV network, because that wasn't the way they did things."

It is unlikely that the engaging Mr McGinn finds much time to watch TV. He loves sport – any sport – and he and his wife have a camp in the Adirondack mountains.

"The other weekend we went there," he says with a smile. "We sailed, we hiked, we boated, we played tennis, we waterskied – all in two days. My wife said: 'Isn't it great we're getting time to relax'."

FT telecoms

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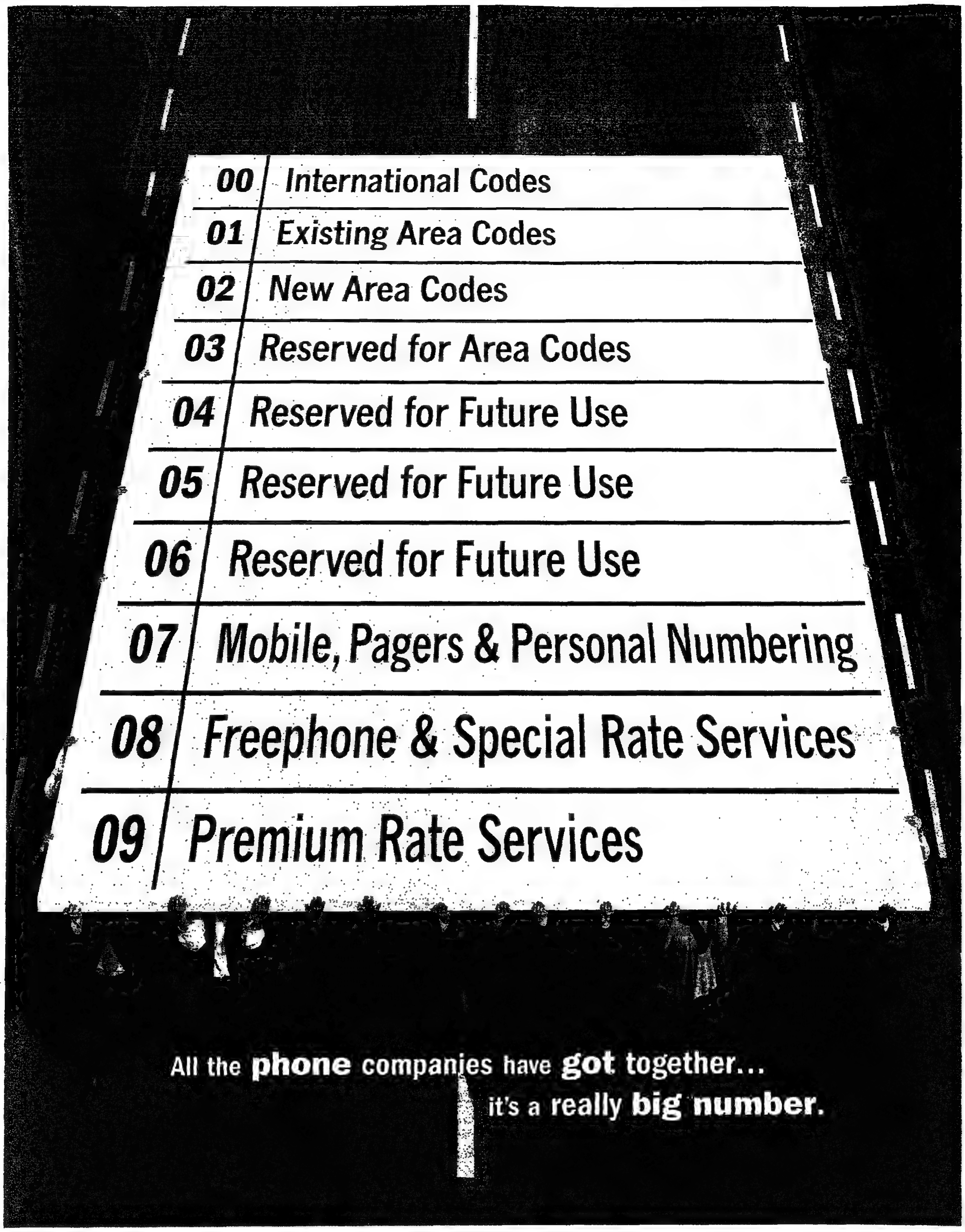


OVERVIEW • By Joia Shillingford

Secondary issues to the fore

Governments are now looking to sell further stakes of part-sold utilities

Few regions of the world are virgin territory for telecoms privatisations, so the emphasis is shifting towards secondary issues, where a second tranche of equity is floated.

In Europe, most of the largest telecoms companies (telcos) have already been privatised. British Telecom, Telecom Italia, Telefónica of Spain and Teledanmark are 100 per cent privatised. The next big thing in Europe in the coming months will be the privatisation of Swisscom.

The telcos' brokers are currently talking to investors around the world about the stock. However, the percentage of equity being floated has already been cut because of uncertainty about the markets.

A second tranche of France Telecom is due to be floated in the next three months or so. Also on the stocks are Telecom Austria and Sonera of Finland, which should come to market in the next three to six months. Another tranche of Portugal Telecom is coming up, and there could be a third tranche of KPN of the Netherlands.

In 1999, Belgacom of Belgium, Telia of Sweden and Telenor of Norway all plan share issues. Turk Telecom is expected to come to market sometime next year.

There could be a secondary issue of OTE, Greece's public telecoms operator. However, OTE's chairman, Dimitris Papoulias, stepped down earlier this month, over reports of a clash with the chief executive over the sale of a 15 per cent tranche to domestic and foreign investors.

Mr Papoulias, last year masterminded the successful flotation of a 15 per cent equity tranche under the government's partial privatisation programme.

Thirty-seven per cent of OTE is owned by a mix of private investors and institutions.

In eastern Europe, the Czech Republic and Hungarian phone companies have already been privatised. Ameritech of the US and Deutsche Telekom of Germany both took stakes in Matav of Hungary prior to its successful initial public offering of the remaining 40 per cent of equity last autumn. Other east European telcos due to privatise are TPSA of Poland and Estonia Telecom.

Bulgaria's telecoms company is being privatised and Rom Telecom of Romania has been seeking partners, though many have withdrawn from the bidding process. In Latin America, the biggest telco Telebras of Brazil, has already been privatised. The Brazilian government is to license a number of competitors to compete with Telebras, and this is generating some excitement.

Turbulence in Asia-Pacific financial markets will reduce the number of telecoms privatisations there in the next year: exceptions include Telstra of Australia and Chung Hwa of Taiwan.

The Australian government has promised to float the second tranche of Telstra – probably next year – if it is re-elected next month. Optus, the rival Australian phone company which is part-owned by Cable & Wireless, is due to be floated either this year or next. In Hong Kong and China, the stock exchange-listed China Telecom (Hong Kong) could be turned into a vehicle for the privatisation of more of China Telecom.

The Japanese Finance Ministry has begun preparations for a fourth tranche of up to 1m shares in NTT, the country's long-distance carrier. The ministry owns 65.4 per cent of the group and plans to choose lead managers for the issue by early October, with the intention of the sale going ahead this year. The Japanese government is expected to raise around Y1,000bn from selling the shares at home and in the US and UK. Docomo, NTT's mobile arm, is also due to be floated this year, for around $50bn in what will be one of the world's largest share offerings in recent years.

Korea Telecom could also float this year or next.

Africa is one of the main areas of the world where there has been little telecoms privatisation activity. A stake in Telkom of South Africa has been sold, and Kenya and Uganda have been considering flotations. However, the African cellular market is attractive because of the low-penetration of fixed phones and the huge infrastructure spending that would be necessary to cable remote areas.

With the recent downturn in world stock markets is there sufficient demand in world markets for all these privatisations?

James Ross, telecoms analyst at ABN Amro Hoare Govett, believes there is. "The big discovery over the past couple of years has been the domestic retail market," he says. "Five years ago the assumption was that the main investment would be from big investment institutions. The discovery was that every market could have wider share ownership. Telecoms shares combine the security of a government bond with an attractive yield and scope for capital appreciation.

"Provided the local retail markets behave the same way in future issues of telecoms shares, the demand will be there."

Retail demand has also been helped in the last few years by falling inflation, which makes the return on other forms of investment such as bonds less attractive. Investing in a telco is seen as the acceptable face of entering the equities market.

There is an alternative to what is normally understood as privatisation, which is simply to sell a stake in a government telco to another company, usually a foreign telco. In fact, many of the privatisations that have already taken place are a mix of publicly-quoted shares and a stake (or several) owned by foreign telcos. This method may be set to increase if uncertainty in world markets continues. This is because it enables a government to raise money in, say, a private auction without having to worry about what the markets are doing.

In the Asia-Pacific region, several Asian governments have tried to sell stakes to other telcos, but often the deals have failed to materialise because the asking prices have been too high. Timothy Cawley, head of Ameritech International, which has stakes is privatised European companies, believes one telco that sells a stake to another can benefit from the additional resources and ideas it brings.

He says: "The strategic partner has much greater interest in the telco succeeding than a management consultant brought in temporarily to introduce change.

"By floating on the stock market a telco has the possibility of a higher price in the short term for the stake it sells. But it won't get the benefits of another's experience that can help raise the value of the rest of its stake.

"For a company whose results are not as favourable as they could be, it may even make sense to bring in a strategic investor to improve the story, before the initial private offering," adds Mr Cawley.

France Telecom development branch executive director Jean Damiamian (left centre) and NYSE chairman, Richard Grasso, were surrounded by can-can dancers at the company's IPO Photo: AP

REGULATION • By George Black

Role in need of definition

The framework for overseeing competition in many countries is still immature

Regulators are struggling to boost competition in the new, privatised world of international telecommunications.

In the old world of monopoly, the state was industry regulator as well as service provider. When governments decided to transfer their telecommunications to the private sector, it was generally acknowledged that independent regulators would be needed to ensure a fair and competitive market.

In most countries, this independent regulatory framework is still immature. The US, Sweden and the UK are exceptional in their progress.

In most of the European Union, where the market was officially opened up to full competition at the beginning of this year, the role of the regulator is still not clearly defined, so competition could be fairly slow to emerge in some countries.

The telecommunications market is mainly still ruled by national bodies, even though it has been transformed into an international business. The European Commission would like it to be regulated at an international level, but this could take years to achieve.

Regulators are limited by the framework established by governments when they privatise, but a pro-active regulator can greatly influence the direction of a market. In setting the framework, politicians can decide which companies are let into the market and at what times to nurture the growth of the most promising competitors.

This gradual opening of the market happened with the UK's duopoly – BT and Cable & Wireless – 10 years ago and the more recent extension of the field to all-comers. But, even after 10 years, BT still holds around three-quarters of the domestic market, which shows how long it takes for the strategy of a regulator to have its effect.

Secondly, there is the decision, which rests ultimately with ministers, on the areas of the market in which competition will be allowed. In the UK, BT has been barred from the entertainment sector for a time to stimulate the growth of competition from cable operators.

The most important decision which is left to the regulator, after these ground rules have been laid down, is how to control prices. This can be done either through setting limits to charges for customers or indirectly through controlling the charges for interconnect arrangements.

Price caps introduced in the UK a few years ago helped to push down charges for voice calls. But in the data communications sector the UK regulator, like most others, has done very little, notes Margrit Sessions, managing director of the Phillips Tarifica consultancy. BT's prices for leased lines and for ISDN are consequently higher than those in other European countries, she notes.

Controlling interconnect charges can be a more effective means of influence. "The regulator's biggest task is to ensure fair charging of new entrants by the incumbent for connecting to its network," says Robin Bosworth, a director of the consultancy Schema.

This is a complex job, since it requires an accurate assessment of the costs of running a network. Often the incumbent operator simply does not know these costs, and usually there is an incentive for it to present the costs to the authorities in a form that favours its own business.

Incumbents may assess their costs on the basis of historical performance, which is likely to reflect the sometimes enormous inefficiencies of a monopoly.

One way round this difficulty may be to apply international benchmarks, for example from the US where the competitive market is most developed. But it is arguable that the US situation is not comparable to that of Europe.

Another key task for regulators is to administer a fair numbering regime. Certain number sets are more attractive to telephone users, and the availability of good numbers affects the choice of supplier.

Another way in which regulators can boost competition is through control of cross-charging and cross-subsidy. Without regulation, incumbents can use clever accounting to retain market share and keep new entrants out of their most favoured areas of business. A close watch on how the books are kept can prevent this happening.

Conversely, a too-zealous regulator could discourage the incumbent from maintaining its level of investment and services. It will not invest merely for others to cream off profits.

Incumbents are typically disadvantaged by being legally bound to serve customers in remote districts, even though it may be unprofitable to do so. The regulator has to be fair to the incumbents in taking account of the costs attached to these operations.

A significant challenge for regulators in the next few years will be to manage competition in the local loop, the "last mile" of the network, which European Union governments are introducing under pressure from the Commission. The changes which the Commission wants should make it easier for new entrants to compete with incumbents.

Finally, the whole regulatory framework could be overturned by the convergence of telecommunications with broadcasting and computing. Governments are only just beginning to grapple with the implications of this next revolution.

PROFILE Telstra

Success story has far to run

In a matter of years, Telstra has virtually transformed itself from a stodgy, state-owned basic telephone services company to one of Australia's outstanding corporate success stories. But the story is far from complete.

Following fierce political debate about the company's future, and signs of greater regulatory intervention, Telstra appears to be entering an uncertain phase which could dampen, rather than extinguish, its current shine.

Telstra's partial float on the Australian Stock Exchange last November drove profitability to record levels in the year to June.

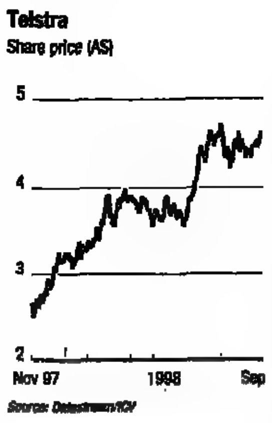
Net profit jumped 17 per cent to $3bn, the highest level ever reported by an Australian company and 7 per cent above the prospectus forecast. Revenues jumped 8.3 per cent to $17.3bn on strong growth in relatively new areas of business such as mobile telephony as well as internet and data services. "Traditional" services, such as basic telephony, now account for just 55 per cent of Telstra's total revenue.

Telstra's share price plunged nearly 4 per cent after the company announced record financial results in August, mainly on news that the board had ruled out a special dividend and would be unlikely to exclude dividends from tax beyond the current financial year to June. This was despite a final dividend of 7 cents, bringing the annual payout to 14 cents, above the prospectus forecast of 13 cents.

Some analysts and investors, however, argued the carrier should have made a one-off payment to distribute some of its immense cash-flows, which rose 7.3 per cent in the year to $5.6bn.

But what critics described as excessive prudence on the part of chief executive Frank Blount and the Telstra board is more a reflection of the company's increasingly mixed outlook. Telstra signalled its determination to keep cash on hand to respond to growing domestic competition, cushion itself from further fallout from Asian economic upheaval, and exploit new investment opportunities.

Finding a successor to Mr Blount, a tough, American-born executive who joined Telstra from AT&T and intends to leave at the end of the year, is another daunting challenge and is likely to weigh on the company's share price in the current year.



The biggest challenge, however, is the way national politics have left Telstra in what Mr Blount described as a "never-never land" between public and private ownership.

Telstra shares made their market debut at a 30 per cent premium to the first instalment price of A$1.95 per share. More than 1.8m Australian investors participated, and analysts say there is strong appetite for more Telstra shares.

Two-thirds of Telstra remain locked up in the government's stake, putting Canberra in a much-criticised dual role of regulator and major shareholder. The future of its 66 per cent stake triggered intense political debate earlier in the year and turned Telstra into an election issue in the lead-up to the October 3 polls.

John Howard, the prime minister, had initially pledged to sell the government's entire stake and use the proceeds to retire national debt and provide a "social bonus" for Australians. Powerful interests, including rural lobby groups, opposed the sale, arguing that a fully privatised Telstra would not adequately maintain unprofitable rural services.

In a humiliating backdown in July, Mr Howard's proposal was defeated – mainly due to opposition from his coalition partner, the rural-based National Party. A compromise agreement, to proceed with the sale of another 16 per cent of Telstra, has raised a new raft of regulatory issues – although it has left the way open for a full sale over three years.

New controls built into the compromise agreement, however, would force Telstra to comply with specific legislated service standards, to be outlined in a new telecommunications act. A full sell-off would be possible only if an official inquiry could prove Telstra had complied fully with the legislated service standards.

Mr Blount has described growing competition from the government's telecoms deregulation programme as one threat to Telstra's future profitability. But the likelihood of regulatory intervention posed the largest threat, he said. Already, Telstra is facing regulators on several fronts.

Most immediate are two investigations by the Australian Competition and Consumer Commission, the government's powerful anti-trust watchdog. The ACCC is conducting inquiries into Telstra's near-monopoly local call business and into allegedly anti-competitive conduct when churning, or transferring, customers to other carriers.

Mr Blount has predicted continued strong profit growth, regardless of the group's ownership structure. But as long as the company remains in "never-never land," its fund-raising options will remain severely restricted.

A continuing programme of deep cuts in capital expenditure is likely to boost cash-flow and maintain a steady pace of debt reduction. With a net gearing ratio of 37 per cent and interest cover of 7.6 times, the company's financial flexibility is not in doubt.

Gwen Robinson

TELECOTTAGING • By Joia Shillingford

It's almost as good as being there

Technology is helping people to work and live in different countries

Forget teleworking from a telecottage. Today's teleworkers are starting to live in one country and work in another – using telecoms to cut down on travel.

John Sandifer, at billing software consultancy AMS, lives in Paris and works mainly in London and the Netherlands. Until July he lived in London, but decided to move when his landlord told him he planned to sell the house Mr Sandifer rented in Chiswick.

"We looked around for somewhere else within good commuting distance of the children's school, the French Lycee," says Mr Sandifer. "But within our price range we would have been looking at increasing their commute to school from 30 minutes to 40 to 50 minutes.

"So we decided to move to Paris, where we had lived once before. Now we live in the centre and our three children have a five-minute walk to school."


Keeping in touch: Colin Farquhar calls into the office

Mr Sandifer says he carries his office of notebook computer and Global System for Mobile (GSM) phone with him, but when he is in London or Amsterdam he uses AMS offices. "All I need is a mobile and a power point," he says.

A typical week for Mr Sandifer is in London on Monday, Amsterdam on Tuesday, Wednesday and Thursday, and Paris on Friday.

Mr Sandifer reports to AMS in London; although the company is a legal entity in France, it has no office there. He has just had an ISDN line installed. "Now I can get on to the AMS global network from home, get on to Lotus Notes, get files from London, or connect to the internet," he says.

Mr Sandifer also plans to use video-conferencing over ISDN to keep in touch with colleagues while retaining some of the intimacy of face-to-face meetings. However, he says he would not use video-conferencing for client meetings unless the client wanted that.

He is not worried about losing contact with London-based colleagues. He says: "Nowadays there's a range of telecoms tools for keeping in touch with people so I choose what's appropriate for the situation. If a real-time exchange isn't needed I use electronic mail." But he thinks it is critical for some face-to-face contact to be retained.

An American with dual American-French nationality, Mr Sandifer and his family are happy with their new address. He is paid in French francs and says: "As long as I'm working in Europe I'll be based in Paris. Once we thought about Paris, we thought 'why not?'" Moving from Chiswick to Ealing would have been almost as much upheaval as moving from London to Paris.

Fiona Rew-Cochrane started teleworking to an office in another country for a similar reason. But instead of a forced house move, it was her employer who was moving offices. Ms Rew-Cochrane had moved from London to Amsterdam to work on an oil industry project. But then the company decided to relocate to Rotterdam, which would have been more difficult for her husband to travel to at weekends.

After a stint working for another company, Ms Rew-Cochrane, an IT contractor, worked out a new arrangement. Instead of having to be in Rotterdam all the time, she would work for the company three days a week but only go to Rotterdam in alternate weeks. Every other week she would work from her home in north London.

Ms Rew-Cochrane loved the arrangement, communicating with the Rotterdam office by phone and electronic mail. She is now working on the Istanbul phase of the project.

For Colin Farquhar the decision to work in one country and live in another came when his company sold its non-core product lines and closed its Edinburgh office in June. Mr Farquhar, channel marketing manager for networking company Shiva, decided to carry on living in Lime Kilns in Scotland, a small village 45 minutes' drive from Edinburgh. He now reports to the company's office in Wokingham, in southern England.

He says it was not difficult to persuade the company to agree because he already spent a lot of time travelling. Now a typical week for Mr Farquhar is to spend Monday and Tuesday in Wokingham, one or two days in one of the company's overseas offices such as Paris, Stockholm, Munich or Utrecht, and Friday at home. "Because I travel so much, when I'm at home I start at 9am and finish at 5pm so I have more time to spend with my family."

In his village home on the edge of the Forth, Mr Farquhar has a couple of PCs linked by an Ethernet network. This is connected to fax and voicemail. An ISDN line and Shiva ISDN router link Mr Farquhar to the Wokingham office. When he returns from a trip he can plug his laptop into the network and transfer the files he has created.

When travelling, Mr Farquhar has a PalmPilot personal organiser which, he says, is a godsend for scheduling. He also has a Windows CE palmtop PC, a Sharp HC4500, which he uses on flights in preference to his laptop. He also has a Nokia 6110 mobile phone with extra built-in data card and infrared link so he can connect to the internet by simply pointing the phone at the laptop and dialing up.

Mr Farquhar can connect to his Wokingham office via the internet, which acts as a secure virtual private network. This means the office is a local call away from his home or from anywhere in the world. This is possible because Shiva's LanRover VPN gateway box sits in the Wokingham office at the point where Shiva has a company connection to the internet.

"It's been a big help working for a company that specialises in remote access products because I'm not a gadget person and haven't had to make lots of decisions about what technology to use," says Mr Farquhar.

"The benefits of my working arrangement are that I have a lot of flexibility over how I organise my schedule. And our parents, who live nearby, can be more involved with our child, which is why we moved to Scotland three years ago.

"The drawbacks are that I've been less involved with my wife's current pregnancy than I was with the first one. It seems to have lasted only two-and-a-half months because I've been away so much."

PROFILE Equant

IPO to fund network expansion

Global data communications are booming, and the big carriers are rushing to upgrade their voice networks to cope with the data explosion. Smaller data networking companies have reason to worry, but not Didier Delepine, president of Equant, who hardly has the look of a man about to be crushed by giants.

Flush with funds from Equant's initial public offering (IPO) in July, he talks enthusiastically about the company's own ambitious network upgrade that includes buying a big 155-megabit link on a new transatlantic cable.

Equant, which claims to operate the world's most extensive data network, usually leases links to carry the data of its 600 customers, which are mostly multinationals. But the amount of data carried soared almost 200 per cent in 1997 and Mr Delepine says it is increasingly difficult to lease extra capacity. So Atlanta-based Equant, whose revenues last year were $529m, has chosen to build its own network, starting with the transatlantic link and joined next year by dedicated networks for Europe and the US.

Almost two-thirds of the $645m that Equant planned to raise from the IPO will go to buy international network capacity. "I don't believe that you have to own your network resources, but sometimes there are overwhelming advantages," says Mr Delepine.

One advantage is substantial cost savings as Equant paid $14m to buy the 155-megabit link outright – previously it was paying $4m each year to lease a much smaller 45-megabit link.

With arguments such as this Mr Delepine has persuaded Wall Street to invest in a company which, outside the data networking industry, is not well known. "You cannot survive by being the best-kept secret in telecommunications," he says.

Equant started life in 1949 when leading airlines created a Co-operative organisation – Sita – to provide communications for the air transport industry around the world.

In the late 1980s, Sita started seeking "non-captive" customers for its network, and this side of the business, which became Equant Network Services, has grown much faster than Sita's traditional customer base. Sita and Equant jointly own and operate the network for their respective customers.

Prior to this year's flotation, the Sita holding company also took the name Equant to "unify and strengthen the Equant brand". More than half the data carried in 1997 still came from Sita members, although the ratios have since reversed. Critics saw the rebranding exercise as an attempt to disguise this heavy dependence on airlines – an industry notoriously vulnerable to economic downturns – and play down the company's less attractive businesses, such as its sprawling services arm, whose revenues have stagnated.

Equant has embarked on a restructuring programme to increase revenues and poor profitability of this division, now called Equant Integration Services. The headcount has been cut and the strategy shifted from supplying airlines with telecoms equipment and maintenance – its original role – to providing higher-margin services.

Mr Delepine agrees that Equant Integration Services looks unattractive when compared with the Equant Network Services division, whose revenues almost doubled in 1997. But he believes synergies can be found. "In more and more cases there is a change to leverage solutions between the two divisions," he says.

Since last January, when the two companies started to work more closely together, the percentage of customers shared by both divisions has grown from 5 to 11 per cent.

Equant was one of the first carriers to allow multinationals to link locations globally using frame relay – a high-speed data networking protocol – and it claims to offer the most extensive such network with connections in more than 75 countries. However, its early lead has diminished as at least a dozen carriers now offer frame relay globally.

Around one-fifth of Equant's IPO proceeds will be used to regain a technology edge by developing new products, particularly ones based on the internet protocol (IP) to link corporate intranets around the globe.

Another new area is products to carry voice alongside data traffic. Mr Delepine claims these will allow multinationals to talk to branch offices around the world as easily and clearly as if they were internal extensions. He says cost savings of up to 70 per cent can be achieved over dialing through the conventional telephone network.

The only global alliance that may cause Mr Delepine to lose some sleep is the recently-announced venture between BT and AT&T to pool their international activities. "You cannot minimise the power of these two companies, and I am quite certain they will succeed in some areas," he says.

Although both BT and AT&T are today best known for voice telephony, they and other big carriers are investing heavily to attack the booming market for international data network services.

It is an open secret that IBM is seeking to sell its global networking division. "IBM is not sure that itwants to stay in the data networking business. We are," says Mr Delepine.

Geoff Nairn

INTELLIGENT NETWORKS • By Philip Manchester

An extra layer of control

Accessibility helps to create new systems quickly and at lower cost

When technologists apply the word "intelligent" to the fruits of their labours, it is best to be wary: what they really mean is "clever", "smart" or "adaptable". Telecommunications networks are the latest in a long line of technologies now being referred to as "intelligent": what they really are, of course, is "adaptable".

Traditional telecommunications networks used "hard wired" switches to make connections. It was difficult to re-route calls to other numbers, and it was impossible to build in extra services to combine voice and data or to handle multimedia content. But digital computer technology now makes it possible to programme the switching logic in a network using software – in the same way one instructs a PC or a mainframe computer.

Beginning in the mid-1980s, networks have grown increasingly "intelligent" – in the sense that they are now much more adaptable.

Intelligent networks introduce an extra layer of software control, accessible both to the operator and to the end user. When a telephone call arrives at an intelligent switch it can be suspended and instructions invoked to process the call.

It means, for example, that calls for a toll-free number can be diverted to other numbers specified by the service subscriber. Calls to an office telephone can be re-routed automatically to a mobile telephone. The intelligent switch could also set up a dual connection, combining the voice traffic with an internet link.

The accessibility of intelligent networks should also enable businesses to create new service applications quickly and at a lower cost. Services which link voice and data communications or make use of multimedia are examples.

"Intelligent networking technology is the basis for many new applications and what we are calling 'killer services'," says Per Jomer, vice-president and general manager of the network intelligence group at Ericsson, the Swedish telecoms equipment manufacturer.

"This covers everything from the convergence of fixed and mobile communications to cashless calling services and call centres. What they have in common is how they bring control of the network to the end customer. They can go in and make changes – re-route calls to other numbers and the like."

Far from being only a technological push, however, intelligent networks have been born out of a demand. Businesses need technology that can adapt quickly to changing business conditions; intelligent networks enable new types of telecommunications services and applications which could offer cost-effective ways to compete in the global market.

Call centre applications of intelligent networks have the highest profile at present. Financial institutions have derived enormous benefits – in the form of cost-cutting and market expansion – from their use of call centres. Manufacturing and retailing are following, seeing opportunities to use call centres based on intelligent networks in marketing and sales support.

Deregulation and the changing structure of the telecommunications industry has helped to fuel the demand for intelligent network technologies. Bill Joel, European vice-president for courier networks at Nortel, says: "There are three drivers – economics, productivity and regulatory. Call centres come out economics and productivity – they are ways of improving efficiency. Regulatory issues – such as like being able to select your own arriet, number portability and equal access are driving the creation of services."

Demand for intelligent networks is certainly buoyant. A report published last year by UK market researcher Schema forecast a trebling in annual European revenues for the intelligent network services to $15bn by 2002. Ericsson's Mr Jomer points to figures from Ovum, showing 20 per cent annual growth in demand for the equipment to power intelligent networks "We are actually growing ahead of the competition at 40 per cent, and the demand is coming from across the telecommunications market – from incumbent suppliers such as BT and AT&T, and from cellular operators," he says.

Schema's report notes that cumulative investment in the equipment needed for European-based intelligent networks between 1996 and 2002 will add up to $1.5bn, and confirms Mr Jomer's assertion that the source of demand is spread widely. Some see this as a source of tough competition and even conflict between incumbent operators and newcomers.

"It's about telecoms democracy against telecoms oligopoly," says Charles Coates, a partner at consultants A.T. Kearney. "The incumbents in Europe are desperate to retain their networks and are looking to applications based on intelligent networks as a source of revenue. But they face challenges all round from mobile operators and companies such as Level 3 and Quest laying down fibre optic backbones."

He says the newcomers have an advantage over the incumbents. "These companies have better software skills than the telecommunications companies and they are more commercially focused. Telecoms companies are not big in call centres, for example, and yet the call centre is becoming increasingly sophisticated – linking in the internet and bringing in multimedia. Those coming from the computing side are much more competitive. BT in the UK, for example, can compete, but it needs a different business model."

BT – and its rivals – will have little choice; the trend is for telecommunications networks to grow increasingly intelligent or, more properly, "soft". Researchers at Nortel, for example, are working on prototype networks where all communications traffic – voice, data and video – travels along a single wire. They are also talking about systems that would constantly negotiate the best carrier tariff and service quality for a long-distance call using intelligent "agent" software inside the network.


Per Jomer: 'Growing ahead of the competition'

CASE STUDY · Directories

Ericsson addresses a problem

While call centres and call re-routing are the highest profile applications of intelligent network technology, they are by no means the only ones. Universal directories – where an enquirer can obtain an email address or a telephone number from a single source – rely on intelligent networking to connect to directory databases.

Deregulation and greater competition have brought costs down and offered users more choice. But the proliferation of new services and suppliers has caused problems. One is directory services.

In days when telecommunications was limited to telephones and, usually, a single national supplier, there was only one directory administered by the supplier. But now there can be many suppliers, each offering a range of services with different ways of identifying service users.

Where once we might have had a work telephone number and a home telephone number, we now have mobile telephone numbers, email addresses, perhaps even a web page address. The result is a proliferation of unlinked directories.

Ericsson, the Swedish telecoms equipment builder, has been working with the Swedish University network to find a solution – to create a national email directory. The aim is to create a nationally available directory service accessible through the worldwide web (www).

"The idea is that you can access all of the internet providers' (IP) directories, regardless of the directory format or location," says Per Jomer, vice-president and general manager of the network intelligence group at Ericsson. "We have built a special-purpose server called a Direct Access Gateway (DAG). It holds a master index of directories and can translate from one format to another."

The project is sponsored by the Swedish government and has been under development for two years. "It is part of a wider government-backed project to create a new technology infrastructure for Sweden, call at Tele2 with technical responsibility for the scheme. The participants in the project saw there was a need for some form of central directory. We set out to create a specification that would deal with the standards and format schemas that IPs are using.

"The project set out to solve three specific problems in creating a white pages directory service. These are protocol translation, to handle the differences between directory standards, schema translation, to cope with different formats, and indexing to locate services quickly."

The specification covers the protocols to access the four main directory standards – including versions 2 and 3 of the Local Directory Access Protocol (LDAP) – and defines a method for translating between different schema formats.

"Even if you use only one directory standard, you can have different schemas," says Mr Fallstrom. "In one, for example, you might just have a name as a single item. In another you might split the name into given name and family name."

The specification also required solution to the problem of indexing directories. "Common directory standards such as LDAP and X.500 are hierarchical so there is a problem knowing which part of the directory to go to," he adds. "Any solution has to cope with this.

"Once the specification was complete, we put out a request for proposal document. Swedish University Network (Sunet) and Ericsson were selected as the project participants. Sunet administers the network and Ericsson is the equipment supplier."

DAG, now under trial, accepts queries in all commonly-available protocols and interrogates an index to find which directory servers might contain relevant information. It then accesses all the identified servers, using the protocol appropriate to each server, and collates the results for the transmission to the enquirer. DAG also contains charging interfaces, allowing flexible billing.

The new DAG service works by acting as a gateway to all internet operator and service providers' directories. This gives internet users instant access to all the contact details of Swedish users of the net. It includes mobile and fixed telephone numbers, email addresses and www sites – even though the information may be in different formats and held in different places by different organisations.

Although the primary purpose of the project is to create a national directory, Mr Fallstrom does not rule out the possibility of extending the service beyond national boundaries. "We are testing the service and we want to spend a year checking that it can perform – that the indexes don't get clogged up or grow too complicated."

DAG is claimed to be the first service of its kind to offer a single point of access to directory information and, according to Ericsson, it opens a new range of business opportunities.

"Since the release of DAG in June it has generated much interest from both the telecoms and datacoms markets," says Ericsson's Mr Jomer. "With the explosion in the use of email and www addresses, clearly there is strong demand for a product that can find a complete set of contact details within seconds and at the touch of a button."

The project has attracted attention elsewhere. It has received recognition from the Internet Engineering Task Force as an example of how to implement a protocol translator for directory services. The project is supported by the Swedish Foundation for Knowledge and Competence Development (KK-stiftelsen).

Philip Manchester

ELECTRONIC COMMERCE • By Geoff Nairn

Revolution is gathering pace

Vendors are rushing to promote internet call centre technology

The call centre has transformed the concept of customer service, and the revolution may soon extend to electronic commerce with a new breed of internet call centres.

By linking a call centre to a company's website these systems can handle enquiries irrespective of whether they arrive by phone, email or fax. The aim is to reduce the often high cost of staffing today's "full service" call centres by encouraging customers to use the website to access information and perform transactions.

Call centre agents will still be needed, but in fewer numbers as they only become involved in an internet transaction when the customer wants to talk to an agent and hits a "call me" button on the web screen.

Datamonitor, an IT consultancy, predicts web technology could become the next source of growth in the call centre industry. However, it warns that using the internet for initial customer contact is today far from common, particularly outside North America.

The consultancy's figures show that web technology contributed just 2 per cent of the $442m spent on call centre technology in Europe last year, and the share will only grow to 3 per cent by 2002.

The market may not be ready but vendors are rushing to promote internet call centre technology, which they claim offers the best of both worlds: the low cost and global reach of the internet with the option for customers to talk to a friendly voice if desired.

"There is a grey area in customer service between the traditional full-service call centre and the totally self-service internet," says Laura Di Sciullo, managing director for internet call centres at Lucent Technologies.

In financial services, for example, legislation may require the seller to demonstrate that the customer was adequately informed – something that is difficult to do if the financial product is bought "off the screen" from a self-service internet site.

With an internet call centre, an agent could automatically telephone the applicant to check their suitability before the online sale was completed. Agents would have the details of the online application duplicated on their screen and, in the case of an existing customer, could call up a customer profile or record of past transactions.

Traditional call centres often have to carry high staffing costs

Another application is online retailing. One of the big problems of shopping on the web is that when the customer has a query there is no easy way for the retailer to answer it.

"Online merchants need to provide a comfortable shopping experience, and that often means giving them direct access to a real, live person," says Craig Danuloff, president and chief executive of iCat, a US company that sells online catalogue software.

The company was one of the first to allow online stores created by using its software to incorporate "call-back" links to live customer agents. The technology is supplied by NetCall, the UK-based internet call centre specialist. Micron Electronics, a US computer retailer, plans to use Lucent's internet call centre technology to improve its web store.

The existing site requires the customer to choose from a list of computer models and options; while the program does check to ensure a buyer's choices are valid, there is scope for confusion. Micron thus displays a freephone number on each web page so customers can call for help in choosing their system.

The big drawback with this approach is that it forces a halt in the buying process as customers with just one phone line will have to drop their internet connection to call the human agent. They must then explain their problem over the phone and at the end of the call reconnect to the website ... and perhaps restart the buying process from scratch.

Not surprisingly, the frustrated customer may wonder whether the entire process would not be more easily performed just using the phone. However, that conflicts with the retailer's desire to use the internet to automate transactions and save costs.

Ms Di Sciullo says it costs from $3 to $4 to handle a transaction using a full-service call centre and just 1 to 3 cents if the customer does the transaction over the internet. The new breed of internet call centres aims to retain the low cost of web-based transactions by automating the buying process as far as possible, but also ensure that a human agent can be contacted if needed. Micron Technologies plans to use Lucent's technology to add "call me" buttons to its web pages.

As most consumers only have one phone line, the Lucent technology has been designed so that it can simultaneously handle a voice call and the ongoing internet connection on a single line, thus ensuring the customer does not need to drop the internet connection. To do this, the customer needs a modern PC with microphone and speaker as the voice conversation is handled by the computer rather than a conventional phone.

Users of older PCs lacking this feature can instead communicate with a call centre agent by typing messages in a window on the screen. Alternatively, they can ask for an agent to phone in a few minutes, giving them time to exit the internet.

The combination of the internet and call centre technologies opens up many possibilities – Lucent believes the "call me" button could soon be used to hold internet video-conferences with call centre agents.

But Datamonitor cautions it will be many years before web-based call centres are widely used for mainstream customer service applications as the number of consumers with internet access remains small.

DATA COMMUNICATIONS • By George Black

Solutions sought as data traffic heads for gridlock

Bottlenecks in the local loop constitute the biggest problem

Like London's M25 orbital motorway, global data networks seem to be approaching gridlock. The more capacity is increased, the more traffic grows. In both cases solutions are urgently needed, but all the proposals are controversial.

Data traffic is already exceeding voice traffic in the US by some measures, and soon after 2000 data will make up the great majority of calls in many countries.

Some experts think the data traffic congestion problem can be overcome by new technology, which they claim is moving as fast as users' requirements.

Others say congestion will last for many years because there are serious problems in strengthening the weak links, especially in the local loop, the "last mile" of the network.

In the long-distance network, development is moving at a fast pace. The leading carriers are building their own global optical fibre networks so that they do not have to rely on contracts with others who may have less reliable backbones.

One of the key technologies for carriers is synchronous digital hierarchy (SDH), a transmission system that enables networks to be built more quickly and maintained more cheaply.

SDH is becoming a standard for new carrier networks internationally.

At the core of networks there is a general shift to "cell-switching" technology which should unlock much higher performance. The most powerful forms of cell-switching are ATM (asynchronous transfer mode) and Frame Relay.

ATM is generally becoming favoured by carriers and some of the largest corporations which are building their own wide-area networks. Frame relay is the fastest-growing area for large businesses generally, according to Alan McLeod, UK managing director of Infonet, one of the leading private network operators.

At the local level, progress is a lot less rapid. "Bottlenecks in the local loop are the biggest problem for rolling out electronic commerce," says David Harrington, director-general of the UK Telecommunications Managers' Association.

There has been a widespread move among large businesses from analog to digital access systems, particularly from modems to ISDN (integrated sErvices digital network).

But in some countries, such as the UK, ISDN has been slow to take off, especially among smaller businesses and home users, because of high prices. It is gradually being more widely used, but needs to become a lot cheaper.

Those who still rely on modems often have old machines with inadequate power to exchange data in the volumes now needed.

In the next year or two services based on ADSL (asymmetric digital subscriber loop) technology and its variants will be offered as an alternative method of network access, says Howard Hines, senior technical manager in the data and information services division of BT, the UK's principal carrier.

ADSL is a system which can deliver data to the office or home across existing copper wire instead of requiring fibre. This could speed up access for many users from the 128 kilobits per second typical for ISDN-2 to around six megabits.

But David Harrington warns that much of the copper in the local loop is old and in poor repair, so is likely to be incapable of supporting heavy network traffic. The further from the switch it is, the weaker will be the connection.

For this reason he thinks it could be many years before ADSL can be deployed as a nationwide network. Other alternatives, such as radio or satellite delivery, could get there first.

Another of the big hopes for spreading broadband technology is the cable modem, the device favoured by cable operators for capturing the home market.

Sales of these devices have begun to rise, but the technology may not prove to be a panacea. Mr Harrington says performance could deteriorate substantially when cable modem users are sharing bandwidth.

New technology may help to ease congestion by improving the construction of applications, which are ever more complex and hungrier for bandwidth. This trend can be partly reversed by adoption of "activeweb" or "active networks", techniques of sending data in more economical ways.

The use of the Java language and of similar features in Microsoft's Windows NT operating system will enable internet content to be sent in a streamlined form which uses less network capacity.

As the network becomes the critical resource, applications developers will be under pressure from IT managers to adopt activeweb or similar technology.

A combination of ATM, ADSL, activeweb techniques and the near-ubiquitous IP (internet protocol) could help to prevent data gridlock and gradually ease the adoption of electronic commerce.

The main concern is cost. The installation of fibre may be getting cheaper, but most of the other elements of the networks, which are now principally software, are becoming more expensive.

Few companies can afford to provide such facilities for themselves, and most will be reliant on outside suppliers. Frequently users feel they are being overcharged by their suppliers for these resources.

European users complain that their businesses are disadvantaged against their US competitors by the high costs of data communications, sometimes 10 times as much or even more, they claim. One of the dangers is that users may decide to shift their data communications, for example their web sites, to the US.

Even the national carriers are daunted by the scale of the investment that will be needed to support the next generation of the world's communications infrastructure.

This is one of the main reasons for the present wave of mergers and alliances among international telecommunications companies, according to the investment banking group Broadview Associates.

It helps to explain the recent deals between BT and AT&T, Bell Atlantic and GTE, Nortel and Bay Networks among others.

VALUE-ADDED SERVICES • By Joia Shillingford

Mobiles are becoming all-in tools

Text messaging and dictation are among office aids on hand for the traveller

From footie to FTSE, mobile phones offer all sorts of value-added services. You can check the latest football scores or the performance of the FTSE 100, or even dictate messages. In fact, mobiles can do almost anything that fixed phones can do. But value-added services are more important to the mobile market precisely because the user is on the move and not near office services.

Cellnet's Dictation Line enables people on the move to dictate letters, memos, electronic mail, faxes and text messages by dialing 1222 on their Cellnet digital mobile phone.

The dictation is turned into text by a computer-speech recognition system from UK-based Speech Machines and checked by human operators. It can then be delivered to an electronic mail address or fax machine. Documents are usually sent in about two hours, and a message to the sender's mobile confirms transmission.

Alternatively, the original dictation can be sent to the originating mobile as a sound file so that it can be checked against the transcribed version. The service costs 59p a minute and proved popular in trials, says Brian Greasley, Cellnet's head of new product development.

Voicemail is also more important to the mobile than to the fixed-phone user because the mobile is more likely to be switched off.

Other value-added services which help to bridge the gap between fixed and mobile telephony are growing in importance, too.

Ericsson, the Swedish telecoms equipment company, offers a service that enables a cellular operator to provide an all-in-one fixed and mobile telephony service. Users need only one number for both a fixed and a mobile phone. Calls go to the fixed phone and if there is no answer are routed to the mobile. If that is also switched off the call is routed to the mobile's voicemail. Cellnet's Follow Me service memorises the numbers the mobile owner is usually on and tries them.

Frank Owen, an independent telecoms consultant, expects location-based, value-added services to become popular. For example, if a mobile was combined with a global positioning system (GPS), a service provider could charge less for calls made at, say, an hotels group.

"This could be a win-win situation for the user and the hotel," says Mr Owen. "The hotel, instead of missing out on fixed-line revenues whenever the guest made a call from a mobile, would gain some revenue. The guest could be offered a special, lower, mobile tariff when using one of the group's hotels."

Mr Owen believes mobiles will be used to pay for all sorts of services because knowing which phone number the call comes from adds an extra layer of security. Already mobiles can be used for online banking, or as mobile wallets for buying soft drinks at a vending machine (at, for example, Helsinki airport).

Other value-added services include voice-activated dialing (VAD) for mobiles. Vocalis the UK-based speech-recognition telephony company, is carrying out research into VAD for car drivers so that it could be used not just to make calls but to re-route them or call up complex information services.

Alarm notification is offered by Alcatel on mobile phones or Dect (digital enhanced cordless telephony). The system, which requires an Alcatel server computer and switchboard, is used in a hospital in Belgium to alert key medical staff when monitors show a change in a patient's condition.

Orange and Vodafone, two of the UK mobile phone operators, offer sports and other information. Orange says that along with virtually any sports results it can also provide financial information on the main financial indices and even on futures contracts.

For the truly mobile traveller there are services that will provide access to a telephone from just about anywhere. By using a special $1,000 dual-mode handset, Cellnet's customers will be able to phone from desert (or elsewhere) using the ICO global mobile network.

Once back in more populated areas, the phone will switch to the nearest Global System for Mobile (GSM) network. The service will be available from 2000 and cost an average of $1.95 a minute when using ICO.

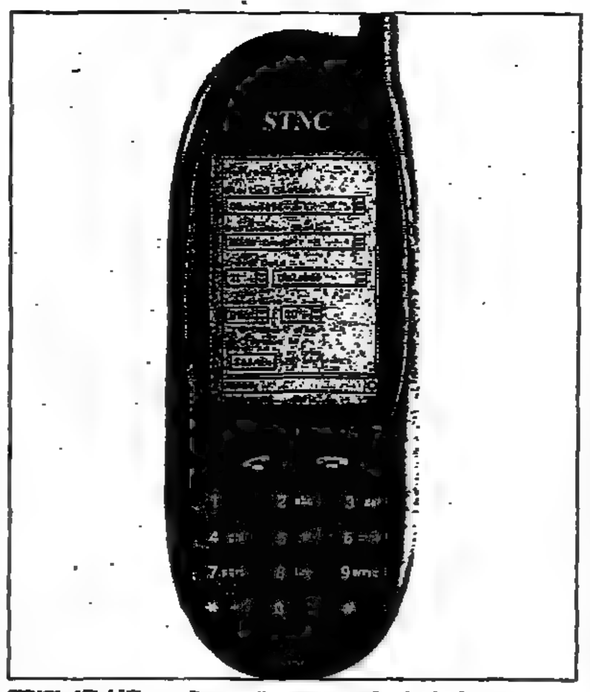
At present, mobile network operators are competing mainly on price packages, coverage etc. But value-added services could become a key differentiator, says Alex Nourouzi, a consultant at London-based researchers Ovum.

Today Cellnet's Genie service integrates the internet with mobile telephony to provide tailored information to mobile handsets including personal finance, share, sport and entertainment information. UK company STNC says its HitchHiker smartphone software can equip most mobile phone users existing equipment for the internet.

There is even a service available from US-based applications company Efusion that tells you if you have a call waiting when you are busy on the internet.

Longer term, developments will give mobile users a virtually unlimited supply of value-added services. Evolving standards for connecting mobiles to the internet such as personal organiser Psion's EPOC operating system company Unwired Planet's Wireless Application Protocol browser should make this easier.

In fact, if you stretch value-added services for mobile to include mobile data, mobiles will be able to do far more than fixed phones.



STNC's HitchHiker software allows connection to the internet

INTERNET CONNECTIONS • By Michael Dempsey

Convergence a reality

Keeping up with a revolution has become a challenge for individuals

The constant shifting web of alliances and sudden mergers within the telecoms sector presents a confusing spectacle. The much-trumpeted theme of convergence, with the distinctions between the computer industry and the telecoms sector blurring and then disappearing, has become a reality.

For individuals, staying up to speed with this permanent revolution has become a challenge. And telecoms suppliers are beginning to find their customers react badly to a perceived lack of certainty in the market. Meanwhile, the new names in the business face an unpredictable future.

The arrival of the internet as a viable international communications mechanism has seen sales figures rocketing at small high-tech suppliers.

Demand for internet connections means ever-expanding networks buying hubs, routers and switches. These are all terms for the dedicated computer hardware that takes and directs digital signals. A small routing switch in an office can cost $1,000; large digital switches resemble the most powerful computers and can carry a similar price tag in the $1m dollar realm. But the long-term prospects for these overnight success stories is uncertain.

Some analysts are already talking about the market for internet components approaching saturation point. At Schema, a UK-based telecoms consultancy, director Robin Bosworth claims that by 2003 most European businesses will have established connections to the internet. "In Scandinavia, internet penetration in business is beginning to approach 70 per cent of the market," he says.

The prospect of customer numbers dwindling while the main players such as national PTTs and associated alliances reassert their dominance does not frighten Stephen De Witt. As president and CEO of Cobalt Networks, Mr De Witt runs a two-year-old, privately-owned organisation owing its existence to £3.5m of venture capital and cost-conscious technology that claims to offer cheap and easy processing of internet connections.

Cobalt sells technology that is bright blue in colour and designed to share a look and feel with consumer electronics. Its square, flat RaQ internet server sells for $1,000 and is cheerfully described by Mr De Witt as "the size of a pizza box".

He is unashamed about pushing the product on price benefits. "You can stack 40 of these in a rack eight feet high and they will consume a nominal amount of power. You'll spend more money lighting the room you keep them in than you will on electricity for the servers," he says.

Mr De Witt's customers are the internet service providers (ISPs) whose appetite for hardware is still undimmed. But both France Telecom and the Japanese PTT NTT have recently invested in Cobalt, putting $650,000 and $350,000 respectively into the company. Mr De Witt explains that while both companies have bought Cobalt products, their commercial interest is in expanding the internet sector. "If the telcos allow the ISPs to grow then the demand for more services must produce growth at the telcos."

It is this prospect of uninhibited growth that makes Mr De Witt cautious about predictions of a slowdown in the internet components market. Asked about the survival prospects for a small, privately-owned concern in this huge global market Mr De Witt outlines what he terms Cobalt's Exit Strategy. "We may go public and then look for a larger partner, or seek out a larger partner first."

Colt Telecoms is a five-year-old company with 1,200 staff, a turnover of £81.5m and 5,600 business customers. It has now taken its philosophy of providing high-quality digital communications via fibre optic links across Europe, with a backbone based around London, Frankfurt and Paris aiming to serve 24 European cities by 2000.

Jonathan Watts, managing director, admits that keeping in touch with the pace of change in his sector is tough on Colt's staff. "We have just spent a day off-site with our staff running focus groups on the latest developments. We want to make sure that our technical and product people are plugged into industry developments."

Mr Watts sees the telecoms industry as confusing many potential customers by highlighting technical achievements. "Customers do get bewildered. They want a service that's functional, though often they only need half of the functions the manufacturers throw at them."

If Mr Watts is cynical on high-tech overkill he's pragmatic about the long-term future for his business. "There will be consolidation in this sector, I have no doubt about that. But the companies that survive and remain independent will be those which evolve and supply what the customer wants at the right charge."

He thinks the recipe for success is to be realistic about Colt's position. "You won't find us trying to compete with BT in areas where they are visibly very strong."

Global One is the archetypal complex telecoms alliance. Comprising elements from Deutsche Telekom, France Telecom and the US Sprint organisation it began operations in January 1996 and now boasts revenues of $1.1bn, with 1,400 switching centres outside the borders of its three national hosts.

Bob Givens, Global One's vice-president in Europe, claims that the relative stability of this partnership serves to reassure customers. He recognises that the constant flux in telecoms has become an issue with the multinational business customers that Global One targets. "Stability is one of our key selling points. We are talking to top level people and they are tired of having new telecoms partners leading to changes in the way they do their business."

Mr Givens' point is that telecoms has become so crucial to corporate strategy that a sense of uncertainty in this one industry can undermine the business processes of its customers. "All of the changes you've seen over the last few years have been very costly for our customers, he says."

The recent $9bn acquisition of Bay Networks by Nortel underlines the way telecoms providers are breaking down barriers with computer systems houses. Bay is a $2.4bn, 7,000-strong company built on computer networking experience. Nortel has 10 times Bay's staff and turnover of $15bn. But it decided that its own data networking operation mirrored Bay's operations in selling data networks to large corporates. And Bay offered expertise in the key emerging market of internet telephony.

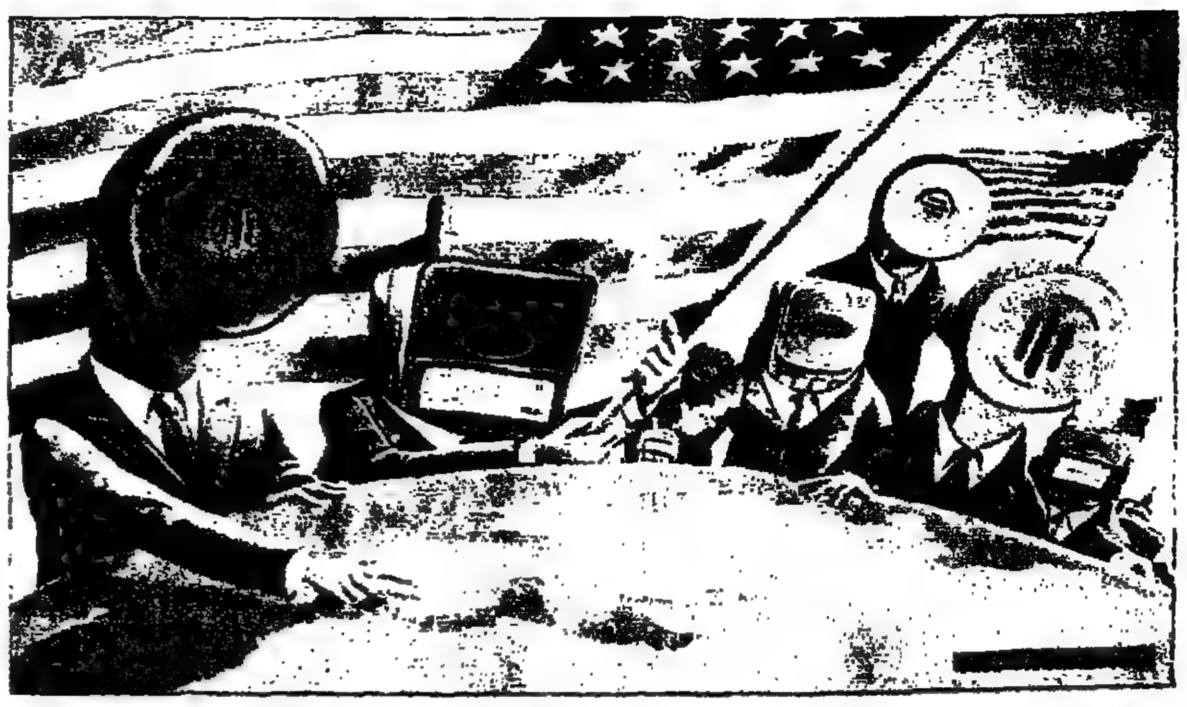
Malcolm Collins, managing director of Nortel Carrier Packet Networks, and Peter George, president of Nortel's Bay division for Europe, agree that customers are beginning to demand a simple structure in their dealings with the telecoms sector. "The themselves are forcing the move towards consolidation. They want to go to one vendor," says Mr Collins.

As a senior Bay executive, Mr George recognises that his customers want "end-to-end voice, video and data". Nortel and Bay came together as a pre-emptive strike says Mr George, the outside world is tired of hearing vendors emphasising their niche capabilities. "We've learned that being internally focused is a formula for failure with the speed this market works at."

If Mr George is right, the market perception of too many players is beginning to have a real impact on corporate thinking.

Deregulation overseas has led to companies shifting their focus. **Richard Waters** reports

US carriers seek leading role on the world stage



The largest US telecommunications companies are getting ready to assert themselves on the world stage.

For the past two-and-a-half years, American carriers have been looking resolutely inward. The 1996 Telecommunications Act triggered a merger-driven scramble to assemble a stronger domestic foothold ahead of the wave of competition that was expected to follow – a wave that has yet to arrive.

Now, with a handful of giant domestic acquisitions awaiting completion and a small group of US super-carriers taking shape, it seems that the rush to merge at home may have reached a temporary watershed. Partly as a result, the carriers say they are now ready to pay more attention to the rest of the world.

"There's no question there's been a huge focus on domestic assets and strategy since the Telecom Act," says John Killian, head of international operations at Bell Atlantic, which has itself bought former neighbour Nynex and recently agreed to a merger with GTE. International operations are likely to get more attention now, he says. "This industry is going global – our customers are going global."

Part of the reason for that shift in focus rests on the greater opportunities that are opening up with deregulation in many foreign markets. "We really believe that growth overseas will exceed growth domestically," says Mike Masin, head of GTE's international operations.

Until now, most American carriers have treated their foreign holdings largely as portfolio investments, places to park their excess capital to generate a return for shareholders – though the Bell companies have also, typically, assumed a degree of management control over these foreign entities. The returns have, in some cases, become substantial: GTE, for instance, expects to earn $450m after tax from its foreign holdings this year, twice the level of three years ago.

Ameritech, on the verge of being bought by SBC, has invested $8bn in Europe and is "in the process of creating a European network" by tying together its "hubs" on the continent, says Richard Notebaert, chairman. "Having a network in Europe will be critical," he adds.

It will take a big leap to turn disparate foreign holdings into coherent international networks. That, though, is what the American carriers say they now plan – helped, in part, by the domestic mergers, which are bringing together larger pools of foreign holdings. "Ultimately, we see it all knitting together," says Mr Killian at Bell Atlantic.

This drive has been fuelled by the gradual breaking down of the traditional structure of international settlement rates and access fees between carriers – a structure which has been highly profitable for all concerned, except customers. This has brought very different responses.

At one extreme, MCI WorldCom has set out to construct local networks in the biggest business centres to keep control of all the traffic of its large international customers. According to John Sidgmore, vice-chairman, control of end-to-end networks cut costs (reselling capacity on someone else's network, never a very profitable option, is no longer necessary). It also raises quality by putting one carrier in control of the entire service, and makes it possible to develop new, more profitable products and services.

MCI WorldCom's two biggest domestic rivals in the long-distance business – AT&T and Sprint – have opted instead for alliances with foreign carriers. The history of such relationships is not encouraging. Both Concert (the former alliance between MCI and BT) and Global One (involving Sprint, France Telecom and Deutsche Telekom) have delivered less than their founders had hoped, and Global One is undergoing a revamp. "It is very difficult to get a large telecom company to do anything: to get two or three to do something together is virtually impossible," says Mr Sidgmore at MCI WorldCom.

AT&T claims that its joint venture with BT will be different. By merging their foreign businesses in a joint venture company, this will create a closer union than the looser alliances that have typified international partnerships in the past.

The AT&T/BT link is certain to face a concerted campaign from rival carriers. Like the planned link between British Airways and American Airlines, it would bring together powerful national communications companies on both sides of the Atlantic, putting rivals at a disadvantage – if it could be made to work effectively.

That may eventually precipitate firmer links between US and foreign carriers. But, for now, other American telecoms companies say, an AT&T and BT tie-up would not pose an insurmountable threat – in part because deregulation around the globe is creating more opportunities to form looser correspondent relationships with foreign carriers.

Within the US, meanwhile, the pace of competition has accelerated – even though the regulatory gridlock that followed the Telecom Act has bedevilled the opening of the country's $100bn local markets.

It is most clearly evident in the long-distance and the wireless markets: long-distance rates are now as low as 5 cents a minute, while some wireless carriers charge only 10 cents a minute, with little distinction left between local and roaming calls.

The local market that was the target of deregulation in the Act, however, remains largely frozen. Local carriers have used this hiatus to consolidate their hold. SBC Communications, which has already bought Pacific Telesis and Southern New England Telecom, will control around 60m access lines once its acquisition of Ameritech is completed – around one-third of all local lines in the country.

Bell Atlantic and GTE, once they merge, will control roughly the same number. Of the original group of Baby Bells, only BellSouth (with 23m access lines) and USWest (16m) have remained aloof from the mergers. With such a strong grip on their local markets, it is not surprising that the Bells have dragged their feet on opening up their networks to competition.

With two mega-carriers dominating local access, AT&T, which still accounts for around half the nation's long-distance traffic, has opted for another route into the nation's homes: a merger with TCI, whose cable television systems pass three out of every five households.

Life as a long-distance carrier could continue to get tougher, however. Upgrading cable systems to carry telephone calls will take years and billions of dollars. And while this is happening, a new generation of long-distance carriers, employing the latest technology to create low-cost networks, are making inroads into the market of the traditional carriers. Known in the industry as the "newbies", companies such as Qwest and Level 3 claim they will be able to carry voice, data and video traffic at a fraction of the cost of established networks.

"The Newbies have the power to be quite destructive," says Mark Bruneau, telecoms consultant at Renaissance Worldwide. He adds: "The least attractive thing to be right now is one of the traditional long-distance carriers."

Emergence of the new US super-carriers

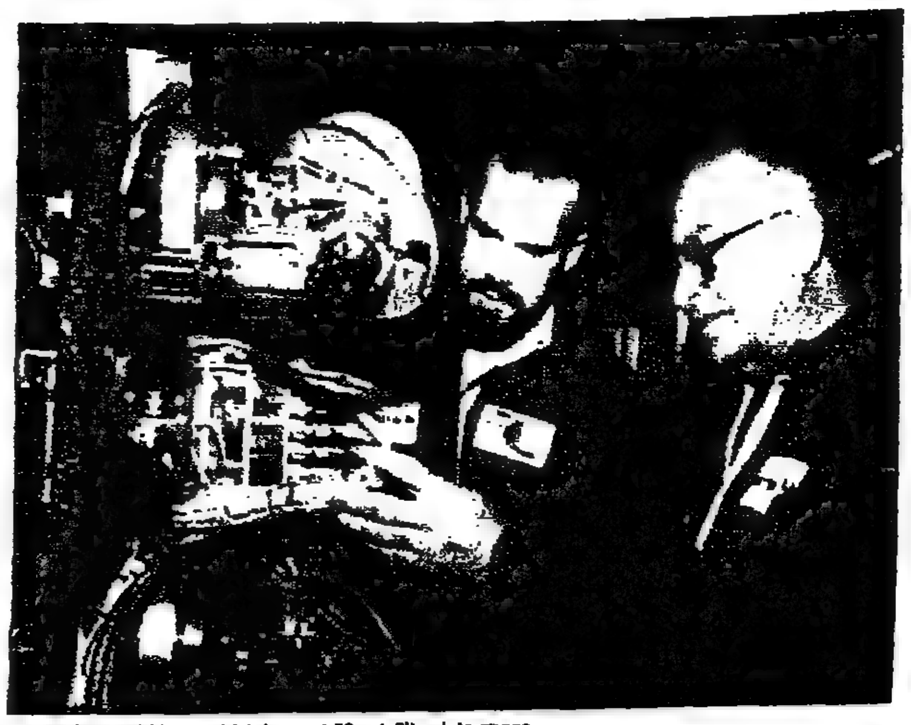
	1997 revenues $bn	Growth rate %	Market cap $bn
Bell Atlantic/GTE*	54.8	6.0	118
AT&T	51.3	1.6	93
SBC/Ameritech	40.8	8.3	188
MCI WorldCom	27.1	17.8	94
BellSouth	20.6	8.0	71
Sprint	14.9	5.9	30
US West	10.3	2.4	25

* Mergers pending

Source: Company reports/FT calculations

GLOBAL MOBILE NETWORKS • By Christopher Price

Convenient, but not cheap



Technicians at Iridium, which has put 66 satellites into space

Iridium targets the developing countries as its net covers the remotest spots

Making a call to and from anywhere in the world from a hand-held mobile phone has became a reality with the launch of the Iridium satellite service.

The US-based group has put 66 satellites into orbit and established 12 ground stations at a cost of around \$5bn. Its system covers the entire globe and makes possible communications with even the most remotest parts of the world.

However, such convenience does not come cheap. The phones, which are slightly larger than conventional mobile models, cost around \$3,000. A call can cost between \$1 and \$7 a minute, depending on where and when it is made.

Premium prices are being targeted at business travellers and the offshore and mining industries, who it is thought will not baulk at the higher tariffs.

Iridium had originally planned to compete directly with terrestrial mobile phone operators. However, the company quickly changed its strategy following the appointment of Ed Staiano as chief executive two years' ago.

"I knew straight away that it did not make economic sense to compete with cellular, which would be able to beat us on capacity as well as pressure us on price," he said recently.

The company has signed agreements with more than 200 mobile operators in 80 countries. Some signatories have bought shares as part of their agreements, with larger investors taking seats on the Iridium board. The company is listed on the Nasdaq stock market.

Iridium's mobile partners sell the service on the company's behalf. They are also supposed to have responsibility for marketing, but the \$140m marketing campaign by Iridium to accompany the launch – one of the largest-ever advertising campaigns – shows where the bulk of the marketing is likely to come from.

Subscribers will utilise their local service provider's network, switching to Iridium when they leave the signal area. Thus a call from the US to an oil rig in the North Sea may route along the terrestrial networks until the signal can get no further before going into space.

Iridium's other main target markets are the developing countries. They are among the 80 governments which have signed partnership agreements with the company, many of which have accepted discount shares in Iridium as an incentive.

The developing world is seen as an ideal opportunity because of the lack of any sophisticated telecoms infrastructure. Using a satellite-based system would enable them to by-pass the huge costs of installing a terrestrial network.

Iridium is also running a charitable programme, where some calls will be as low as 30 cents a minute. Third World governments will also have an allocation of free airtime for emergency situations.

The average cost of a call in developing countries is likely to be between \$1 and \$2 a minute.

Call revenues are only one source of the Iridium's revenue stream. There will also be a paging service, which again has the capability to send short messages to pagers anywhere in the world.

However, analysts believe the group's role as a broker of roaming agreements could prove to be even more lucrative. International cellular usage is held back by the use of different technologies, and even where they are the same, too few roaming agreements exist between mobile operators.

However, because Iridium plans to have partners in almost every country, the company could act as broker and intermediary between two operators without their own roaming agreements.

In addition, Iridium's technology, situated in its ground stations, will allow it to translate between the various incompatible systems, without using the satellite service.

The three revenue streams lie behind Iridium's belief that it will be cash-flow positive by the end of its first year and profitable shortly afterwards. By 2002, it forecasts that it should have paid off its \$3bn debt and have enough funds to pay the estimated \$3bn cost of replacing all its satellites, which have a five to seven-year lifespan and are due to expire in 2005.

But by this time Iridium will be facing competition from at least two other satellite-based systems. Globalstar, which is backed by Loral of the US, has said it would begin operations next year. ICO Global Communications, an offshoot of Inmarsat, the international satellite organisation, plans to launch in 2000.

ICO, which is based in the UK, has already warned it will compete with its rivals on price. Last month it said its maximum price was likely to be set at about \$3 a minute – less than half of Iridium's premium rate. ICO also said that its phones would retail for one-third the cost of Iridium's.

Globalstar has yet to give any indication on its pricing.

However, there is considerable unease in the satellite market over the huge cost of putting the systems into orbit and whether sufficient demand exists to repay the investment.

Consolidation has been one result. Last year, ICO subsumed a rival telecoms system, Odyssey, controlled by TRW. And earlier this year, Motorola rolled its satellite system designed to transmit the internet into the rival Teledesic system. Analysts expect further mergers to occur.

The performance of Iridium will therefore be watched with keen interest throughout the rest of the satellite industry.

LIBERALISATION IN THE US • By Mark Suzman in Washington

FCC's goal seems so simple, but...

Overseeing new laws and ruling on mergers is keeping a watchdog busy

The US Federal Communications Commission (FCC) has been transformed in recent years from one of Washington's sleepier homes for government bureaucrats to arguably its most prominent – and controversial – regulatory agency. It is a change that reflects the growing importance to the overall economy of the sector the FCC overseas.

The commission's task is relatively clear-cut. As William Kennard, the FCC chairman, puts it: "Simply stated, our goal is to promote competition and consumer choice in all communications markets."

Unfortunately for Mr Kennard and his four fellow commissioners, translating that principle into practice has proved difficult to achieve so far.

Charged with simultaneously overseeing implementation of the 1996 Telecommunications Act, ruling on an unprecedented wave of mergers between media giants, and helping chart new domestic and international guidance on everything from connection charges to internet links, the current FCC board has had little time to catch breath since being appointed last year.

With a host of new challenges looming, political pressure from both Congress and the White House growing, and the prospect of more legislative changes to come, the pace is unlikely to let up soon. "It's been a chaotic and frustrating year," admits one FCC official. "Just when we seem to be sorting out one thing another problem comes along."

Heading the list of challenges is the task of trying to open the \$100bn local telecommunications market to competition – the central aim of the 1996 Act. To encourage the "Baby Bells" – regional companies which have traditionally had a monopoly on local calls – to allow competitors into their home areas, the Act offered them the incentive of being permitted to compete in the long-distance market.

The catch, however, was that the Bells first had to satisfy the Justice Department and the FCC that their domestic markets were open to competition. Despite repeated applications, none of the companies has yet met the 14-point "checklist" contained in section 271 of the Act that the FCC is legally required to use to assess their eligibility.

Exacerbating matters, the telecommunications industry has been engaged in a virtually non-stop succession of legal challenges to the Act, culminating in the decision at the beginning of this year by a Texas judge to strike down a key section of the law as unconstitutional. That ruling was overturned by an appeals court earlier this month, but a number of other disputes are still slowly wending their way through the courts system. Until the legal picture is clearer, long-distance companies such as AT&T and MCI are unlikely to accelerate their attempts to break into the local market.

Proponents of the Act respond that it was always unrealistic to expect rapid progress in the individual customer market. They point to growing competition for business users in the local phone markets over the past two years as well as the increased availability of alternatives such as wireless phone services.

At the same time, the agency has become more conciliatory towards the Bells. Earlier this year, FCC officials began working more closely with the Baby Bells to try to help them satisfy the section 271 conditions. And in August, the agency agreed to allow them to install high-speed internet connections to private homes, unexpectedly brushing aside arguments that the move would extend the companies' stranglehold on local customers.

Nevertheless, Congress – spurred on by the approach of this November's elections – has grown increasingly irritated at the lack of tangible benefits for consumers. The agency's political problems have been further complicated by the fact that Mr Kennard lacks the White House support that Reed Hundt, his combative predecessor and a personal friend of US vice-president Al Gore, enjoyed.

That has made it more difficult for the FCC to defend issues such as the "e-rate" programme, whereby the agency planned to use surcharges on phone companies to pay for new internet links for schools and libraries across the country. After the companies mounted a successful campaign portraying the charge as a new tax on phone customers, legislators forced him to scale back the initiative.

At the same time there has been the unprecedented wave of mergers in the telecommunications industry, including proposed link-ups between AT&T and TCI, the cable company, WorldCom and MCI, Bell Atlantic and GTE, and SBC and Ameritech.

While FCC officials admit privately that process is probably unstoppable, they are very aware of criticism from consumer groups and Congress that they are in practice overseeing an era of consolidation rather than increasing competition. Mr Kennard has promised that consumer protection will be the key issue in the FCC's final decision on the deals.

Nevertheless, there are some bright spots. On the international front, the agency has been at the forefront of pushing for more liberalised telecommunications markets worldwide. Some analysts see prospects for the FCC taking advantage of the mergers to increase its leverage with the Bells.

In approving the Bell Atlantic/Nynex merger last year, the FCC required the new company to adopt several of the pricing mechanisms that had been cast into doubt by court rulings. It is now likely to seek similar concessions from some of the other companies as a condition of approving the mergers.

But even that may not be enough to fend off changes to both the agency itself and the law which it has been charged with implementing.

John McCain, chair of the Senate Commerce Committee, has warned that he remains so dissatisfied with the FCC's recent performances that he is planning legislation both to restructure the agency and to modify sections of the 1996 Act.

"Reinventing government is a trendy topic these days, and I can think of no more worthy object of reinvention than the FCC," he warns.

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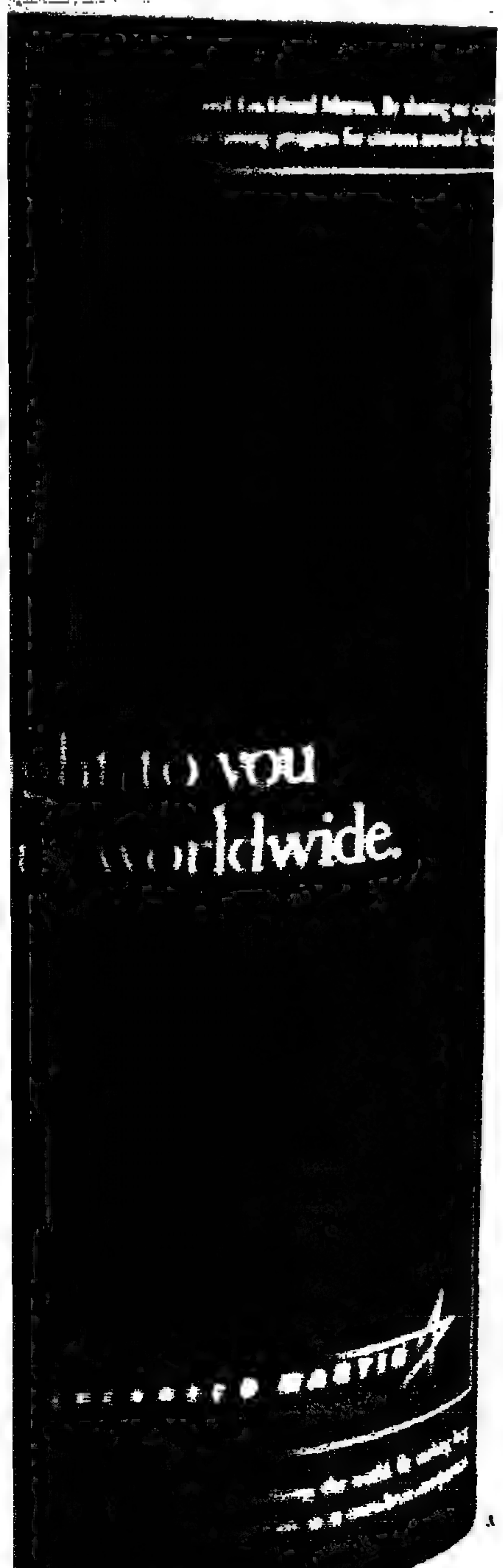


PROFILE MCI WorldCom

Bernie Ebbers: wireless carrier may become a target Photo: AP

Ebbers still has to prove his strategy

Timing is all. That has certainly been the case for Bernie Ebbers, chief executive of the former WorldCom, whose purchase of MCI Communications, the second-largest US long-distance carrier, was completed this month.

One of the best-performing stocks during Wall Street's long bull market, WorldCom's premium stock market rating enabled it to snatch the larger MCI from under the nose of BT.

With the bull market now facing its most difficult period, the time is not ripe for the sort of stock-fuelled mergers on which Mr Ebbers has built his empire. But in MCI WorldCom, a company that was valued at more than $90bn on the day the takeover was completed, he will have more than enough on his plate in the months ahead.

The new company starts out with some powerful businesses. Thanks to the acquisition of MCI, it will be the second-largest US long-distance carrier, behind AT&T, with around a quarter of the market. A previous purchase, of MFS Communications, had already made it the largest alternative local telephone carrier (known in the jargon of the US telecoms industry as a *CLEC*.) With MFS, it also bought Uunet, the largest internet carrier, and assumed a number of local networks in business centres overseas.

The biggest gap: a wireless network. Given his previous record, many on Wall Street expect Mr Ebbers eventually to acquire a wireless carrier.

Of these various businesses, Uunet has by far the fastest growth rate. Its revenues are running at an annualised rate of $2bn and are growing at 70 per cent – a rate that has not slowed down as the business has got larger, says John Sidgmore, the vice-chairman who runs the business.

Under regulatory pressure, MCI sold its own internet activities to Cable & Wireless before its merger, and the new company has agreed not to compete for the former MCI's internet customers for a period of three years.

That will complicate relations with former MCI customers who will now be forced to use separate carriers for voice and internet. However, with around 20 per cent of the total revenues earned by internet carriers, Uunet's own business remains intact.

Mr Sidgmore says the profit margins in this operation are similar to those on the company's core telephone operations – a reflection of the fact that it keeps sales and marketing costs low by only serving businesses or operating as a wholesale carrier for residential customers. "The economics of scale should offset any price erosion over the next couple of years," he adds.

Alongside the internet, MCI WorldCom's international operations are likely to comprise its fastest-growing business, Mr Sidgmore says.

The company operates its own local networks in 15 countries outside the US. In Europe, 3,000 buildings are tied into a long-distance network that connects some of the biggest business centres, with a half-share in two Transatlantic cables linking this to the company's US network.

"Where we can own our own networks, we will do that," says Mr Sidgmore. "Where we can't, we will partner." New locations are judged in terms of the size of the business market, and the openness of the regulatory environment: earlier this year, WorldCom was awarded the first licence for a foreign carrier to build its own network in Japan.

The underlying demand for internet and other data services is also propelling this international business, says Mr Sidgmore. When it comes to the internet, "the US has a two to three year headstart" but more than a quarter of internet traffic originates overseas, and that business is growing even faster than the US internet traffic.

While these high-growth areas help explain MCI WorldCom's superior stock market rating, however, the bulk of the company's revenues still come from its domestic long-distance business, a market that is under considerable pressure.

It has at least succeeded in linking directly with many of its customers, enabling it to by-pass the Bell companies and their hefty access charges. The company operates its own fibre networks in 100 cities, reaching what it claims is 70 per cent of the US business market.

That strategy, with its focus on business customers and on end-to-end networks, has put MCI WorldCom in a better position than most competitors as the fragmented US telecoms industry consolidates. However, Mr Ebbers still has to prove that he has what it takes to make this new company work, combining business operations and integrating networks on a scale that he has never had to do before.

If he pulls it off, he will have justified Wall Street's high expectations – while disproving the doubters who argued that his acquisition of MCI was founded more on an inflated stock price than a sound business plan.

Richard Waters

TECHNOLOGY • By Richard Waters in New York

Boundaries become blurred

Growth in internet and wireless is changing ideas of competition

If an era of greater competition is dawning in the US telecoms industry, then technology change, rather than legislative action, may be the cause.

Congress set out to mandate competition – and with it, lower prices for consumers – by setting the industry on a path that would eventually abolish the barriers between local and long-distance carriers. That effort at deregulation has stalled, caught in a storm of lawsuits and name-calling between rival carriers.

Yet competition has begun to arrive. Thanks to a technological revolution, backed by some huge capital investments, new telecoms companies with national aspirations have emerged to take on the incumbents.

Two-and-a-half years after the defining Telecommunications Act, in fact, the division between the local and long-distance businesses, established on the break-up of the old AT&T, has begun to lose some of its force.

The blurring of the boundaries can be seen in the wireless and internet businesses, says Mark Bruneau, a telecoms consultant at Renaissance Worldwide.

With the competition that has come from the federal auction of segments of the radio spectrum in the early 1990s and the construction of new digital wireless networks, prices have fallen fast. Carriers such as Airtouch, the biggest pure wireless company, predict that it will not be long before prices come down to a level where consumers feel happy to use their wireless telephones as all-distance devices.

Meanwhile, internet carriers have so far succeeded in avoiding the access charges that are paid to complete other telephone calls over the local networks in the US. That privilege, bestowed by the Federal Communications Commission, was upheld recently by a federal appeals court – to the annoyance of local exchange companies.

Thanks to this spurt of growth in wireless and internet communications, old ideas of competition in the US are changing.

Leading the assault in the wireline business is a new generation of entrepreneurs, equipped with the latest in fibre optics and seeking to apply the packet-switching technology of the internet to voice as well as data communications.

They include Jim Crowe, who once successfully took on the established local telephone monopolies with MFS Communications before selling that company to WorldCom. He has now set out to take on the established long-distance companies – including the renamed MCI WorldCom.

Mr Crowe says companies such as Level 3 – the start-up carrier he heads – will eventually draw voice calls onto networks whose technology was first conceived to carry data. Voice traffic comprises only around half of the information that flows over telephone lines but accounts for more than 90 per cent of the revenues of telephone companies, he says. It is this plum that Level 3 – and others – has in its sights.

Rivals say this vision is ahead of its time. The era of voice calls traveling over the public internet will take years to arrive, says John Sidgmore of WorldCom. By that time, he suggests, the economic advantages may have eroded.

Internet users have not had to face the sort of settlement and access charges that apply to other types of traffic. As these charges erode, "the cost advantage of the internet is going to be significantly reduced," says Mr Sidgmore.

Critics say MCI WorldCom has good reason to delay the onset of low-cost voice over the internet: such a move might cannibalise its own core long-distance operation. Mr Sidgmore retorts, though, that as the biggest internet carrier, the company would be in a stronger position than its rivals from such a shift.

Whatever the case, a new technological era is arriving with great speed, with potentially far-reaching effects for the economics of the industry. New national fibre networks threaten to bring down the cost of bandwidth at a breathtaking rate.

"There's a tremendous amount of capacity coming on line," says Paul Gudonis, president of GTE Internetworking, the $800m data division of the local carrier. GTE's own new network will have 100 times the country's present internet capacity, he says. Mr Gudonis subscribes to the view that voice over the internet, at least for now, is the preserve of "a lot of marketing hype and science projects". He adds, though, that IP networks are already set to steal profitable fax business from-long distance carriers, and predicts that by next year some companies will start to carry voice calls on their company intranets.

Established carriers such as GTE have responded with a burst of capital spending in an attempt to reverse-engineer their circuit-switched networks for a packet-switched future. Sprint attracted considerable attention earlier this yearwith plans for a $400m upgrade of its network: it says it stopped buying traditional telecommunications equipment some time ago and switched its spending to routers and other gear suitable for handling internet traffic. Other carriers have take a similar step, though with less fanfare.

The impact of this technological shift may eventually have a big impact on the balance sheets of established carriers. For now, most argue that their existing facilities are not about to become obsolete. However, most believe technological change will only speed up, suggesting that the accelerated write-down of existing assets will eventually become necessary.

"There will be much more rapid capital turnover, and the capital intensity of the business will go way up," predicts Mr Crowe. As a result, he adds, telecommunications will eventually come to resemble the microprocessor industry: one with fewer, bigger competitors, but with higher profit margins to support their bigger capital requirements.

John Sidgmore: doubts about internet cost advantages

CANADA • By Edward Alden in Toronto

Newcomers peck for market share

Battleground moves to local market as number portability hurdle falls

For the Canadian telecommunications industry, 1998 has been a year of enormous change – and there is no sign of this pattern slowing in the short term.

It was early in the year when news first surfaced of Telus, the Alberta telephone company that is Canada's third-largest carrier, negotiating to buy a two-thirds stake in AT&T Canada Long Distance, then the largest of the new long-distance companies competing with the traditional monopolies.

While the deal, rumoured to be worth C$1bn, fell apart, the mere fact that Telus was in such talks showed that the rules of the game had forever changed in Canadian telecommunications.

Telus is part of the 11-member Stentor alliance of provincial telephone companies, formed more than 65 years ago to manage the companies' long-distance networks. A Telus-AT&T deal would have blown a hole in the alliance, and was likely to cause Canada's biggest phone company, Bell Canada, to end the arrangement. This would have sparked an all-out war for market share amongst the once-cosy monopoly companies.

Some observers would say the war is already here. Since Canada deregulated the long-distance business in 1992, alternative carriers have been pecking away at the market share of the traditional monopolies. In the last two years, Stentor's share of the long-distance voice market has dropped from 75 per cent to less than 65 per cent.

The Stentor companies have already agreed to loosen their alliance considerably, announcing earlier this month that they would disband all but the network management arrangements. This would appear to open the door to direct long-distance competition among the alliance partners.

Call-Net Enterprises, which sells long-distance services under the Sprint Canada name, launched a more direct challenge in April when it announced a C$1.6bn hostile bid for Fonorola, a Montreal-based long-distance carrier with a strong presence in the large corporate market and with significant sales directly to other carriers.

The deal, which ultimately cost Call-Net C$1.8bn, gives the new company almost 20 per cent of the long-distance market and makes it the largest challenger to the Stentor companies.

The next battleground is the local market. Canada's regulatory agency removed the last tall hurdle to local competition in July when it released interim rules for number portability, which will allow customers to keep their telephone numbers even if they move to a new supplier. Number portability is seen as essential for creating genuine local competition.

Metronet Communications, the Calgary-based upstart, announced its determination to take on the giants earlier this year by buying competitor Rogers Telecom for C$1bn. The purchase gives Metronet its own separate local network in eight leading Canadian cities, with a goal of having 15 to 20 cities wired by 2000.

Until now the battles have mostly been based on price. Sprint Canada triggered the price war in February 1997 by offering a 15-cent per minute flat rate for off-peak calls anywhere in Canada; AT&T went one better by offering 10 cents a minute a year ago. That was matched this summer by Sprint and finally by Bell Canada, Canada's largest telephone company, which controls the local market in the two largest provinces of Ontario and Quebec.

But analysts and industry insiders say that what is shaping up for the future is a battle in which a smaller number of companies will compete to provide customers the entire array of bundled services, including internet, fax, voice and other data services.

"Companies will go after customers by price and then try to retain them through bundling, reward programmes and other incentives," says Michael McTaggart, senior principal with American Management Systems Canada.

"Jim Meenan, president of AT&T Canada Enterprises, says: "That's our strategy in Canada. Customers want one-stop shopping for all their needs. It's those companies that can weave together partnerships, alliance and joint ventures that will win the customers."

For AT&T, the collapse of the talks with Telus means the biggest hole in the company's strategy is lack of access to the local market. But Mr Meenan says the company is exploring innovative ways to enter that market, including alliance with utility companies or cable companies that have direct access to local customers.

Craig Young, president and chief executive of Metronet, says his company is already positioned to offer a full array of bundled services, including long-distance through alliance arrangements, in the core business areas of most of Canada's main cities.

Mr Young says the likely collapse of the Stentor alliance will open huge new wholesale opportunities for a company such as Metronet. If provincial carriers such as Telus or BC Telecom in Canada's westernmost province are forced to compete for national traffic against Bell Canada, they will likely want access to Metronet's network in the main cities. "It could open up a nice business," he says.

Juri Koor, president of Call-Net Enterprises, says Sprint Canada will be in the local business on a regional basis by next year. Sprint, rather than building its own local network, is relying on hook-ups to existing networks, which would allow it to service small and medium-sized business and residential customers rather than just the large office buildings targeted by Metronet. But Mr Koor says some regulatory barriers still hamper that wider access, and that local number portability is still not set up to handle the kind of volume his company wants to do.

"Our approach into the local market is exactly the same as it was in long-distance in terms of strategy," he says. "We'll install switches, and we are installing switches right now, then lease the fibre." Sprint will build separate lines for local access only where there is economic justification, he says.

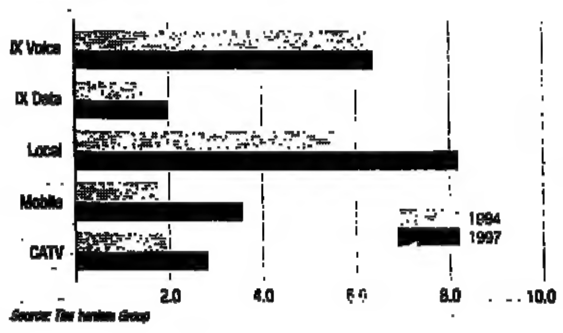
With all its competitors scratching for market share, Bell Canada – with 7m customers in its core markets of Quebec and Ontario – is not standing by idly. Jean Monty, president and chief executive of Bell Canada Enterprises, says the company is in the midst of the most sweeping transition in its history.

Mr Monty says the structure of the Stentor alliance, designed to preserve each of the provincial monopolies, "does not meet today's environment, and has to change drastically". Bell is increasingly looking to become a national competitor by, for instance, constructing its own national broadband network. It is creating a new company to provide internet and other data services for business over high-capacity fibre lines across the country. Bell's Sympatico division is already the largest internet provider in the country.

Mr Monty says that Bell Canada is better-positioned than any of its competitors to offer bundled services. For instance, the company is developing a bundled platform for residential users, starting with a pilot in the Ottawa region, that will offer everything from wired and wireless voice to internet and satellite entertainment.

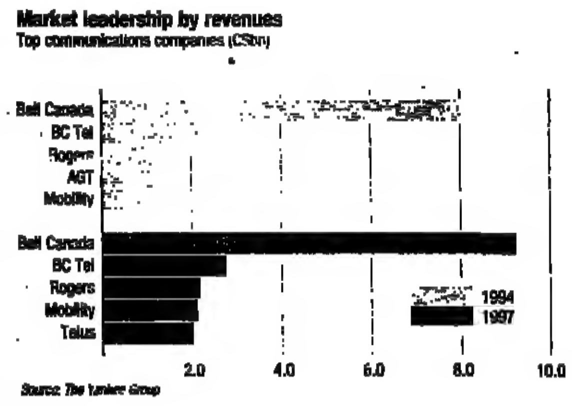
What everyone agrees is that, with old monopolies breaking up, mergers and alliances reshaping the industry and regulatory barriers disappearing, the telecoms business in Canada is going to get more chaotic. And, in what could be a slogan for the industry, Mr Koor of Call-Net says such chaos is just fine "as long as you're nimble enough to take advantage of it".

Canadian communications market by segment
Revenues (C$bn)



Source: The Yankee Group

Market leadership by revenues
Top communications companies (C$bn)



Source: The Yankee Group

Juri Koor (left), president of Call-Net Enterprises, and James Meenan, of AT&T Canada Enterprises

PROFILE Northern Telecom

Quick entry rings some alarm bells

When Northern Telecom announced earlier this year it would acquire Bay Networks, the San Francisco data networking company, for US$9.1bn, Nortel's shareholders ran for cover.

The price of shares in Canada's largest company, which accounts for more than 4 per cent of the Toronto stock market index, plunged nearly 15 per cent and has not recovered.

John Roth, president and chief executive officer of Nortel, wishes investors had reacted a little more favourably to the deal. "It was a bigger hit than we'd anticipated," he acknowledges.

But Mr Roth says his company, the world's sixth largest manufacturer of telecommunications equipment, had little choice. "It was the best available from the point of view of what Nortel needed."

What Nortel needed was quick access to the technology and expertise to develop data networks for internet traffic.

Like most of the world's large telecom equipment manufacturers, Nortel believes its future lies not in its traditional bread and butter voice traffic but in the rapidly-growing demand for data transmission.

Bay Networks, a maker of high-speed routers used to switch internet traffic, was one of a handful of world leaders in providing new data technologies to large companies, and the best available for sale, says Mr Roth.

Traditional voice traffic is a mature business, growing at roughly 3 per cent a year; data traffic, propelled by the explosive growth of the internet, is growing at 30 per cent a year. Nortel estimates the global market for internet-optimised network equipment will grow from about US$10bn in 1997 to US$100bn by 2002.

Pure data traffic is already more than half the capacity of the traditional networks, which were designed primarily for voice traffic. In three to five years that figure will be 80 per cent.

"If the telecommunications business is all about growth and you're not in the growth business, you're in serious trouble," says Gurinder Parlan, analyst with HSBC Securities in Toronto.

Mr Roth agrees. He says that Nortel, which he has headed since last October, was the first of the large telecom manufacturers such as Lucent, Alcatel, Ericsson and Siemens to recognise this transformation and start preparing for it.

He has even coined a catchword, "webtone", to describe what the company is trying to do. Its goal is to bring to the world of data traffic the same instant access, high quality and bombproof reliability that customers expect from their telephones.

The acquisition of Bay, says Mr Roth, was a critical part of meeting that goal.

Nortel began as the manufacturing arm of Bell Canada, the country's largest telephone carrier, and was spun off into an independent company in 1971. From that time until the acquisition of Bay, Bell Canada was the company's ....

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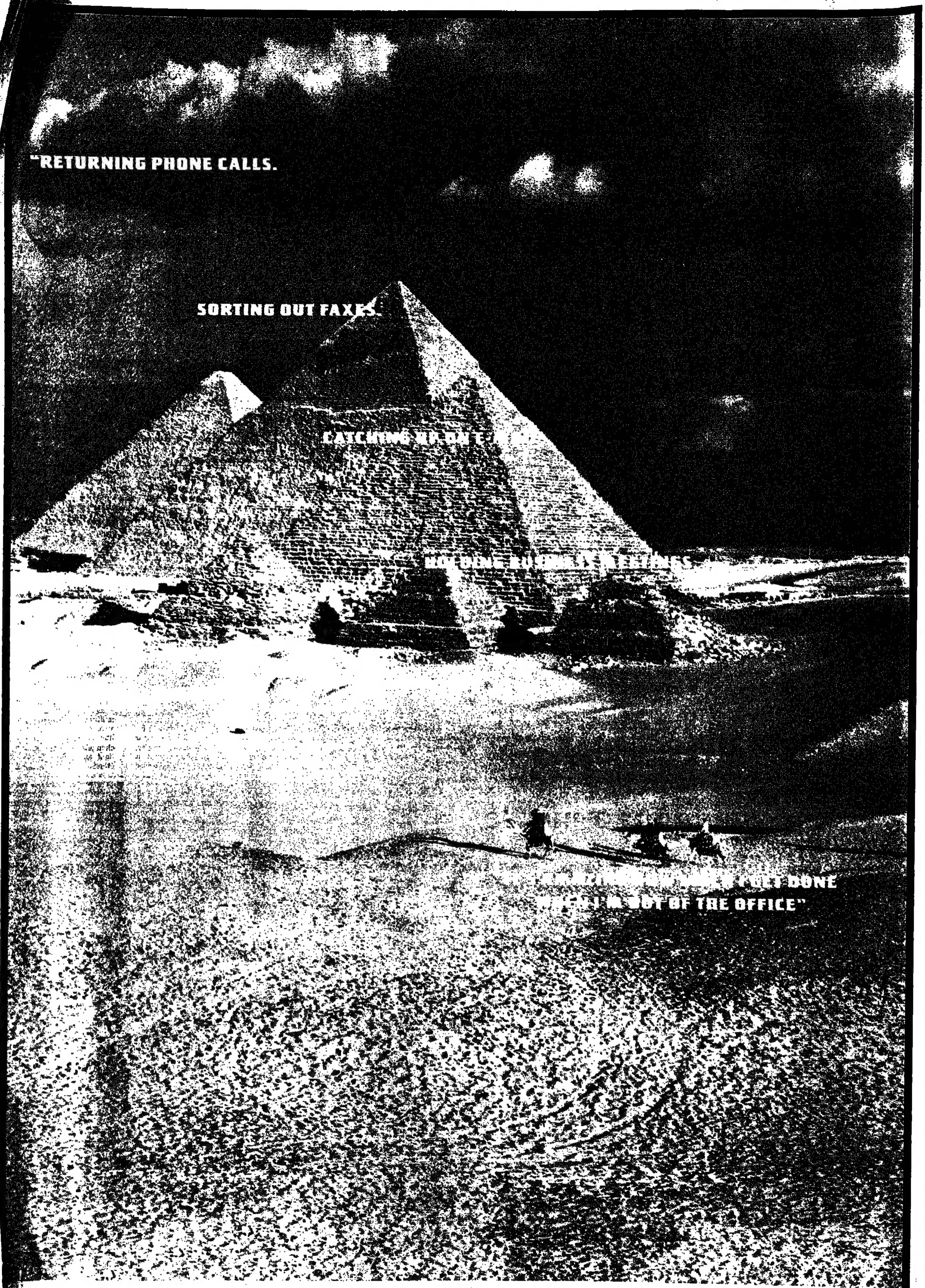

"RETURNING PHONE CALLS.
SORTING OUT FAXES.
OUT OF THE OFFICE"

ACCOUNTING RATE BENCHMARKS • By Priscilla Awde

Balancing compensation

The US is tackling an old problem of having to pay more than it receives for calls

The international accounting rate system, through which operators compensate each other for delivering overseas calls, has long been a bone of contention with US operators.

Because more calls are made from the US to foreign destinations than vice-versa and because the US has some of the lowest overseas rates in the world, they are paying out far more than they receive – $5.8bn more in 1996.

Frustrated by a perceived inactivity on the part of international regulators, the Federal Communications Commission (FCC) acted unilaterally at the end of 1996. It announced what is described as a "benchmark" order, putting a cap on the rates US carriers can pay their overseas equivalents.

The order will take effect in the wealthier countries this coming January. Benchmarks for poorer nations will be phased in by 2003. US carriers will then pay foreign operators 15, 19 or 23 cents per minute depending on the state of the recipient countries' economic development.

Few believe the 100-year-old accounting rate system is the best method of paying for international calls in competitive markets. It is out of line with falling costs, inflates profits for operators, and encourages subscribers to seek ways round the system. Accounting rate payments are a major source of hard currency for developing countries, however.

The FCC solution is not perfect. "The FCC estimates that terminating calls in America costs between 4 and 7 cents per minute whereas the lowest proposed benchmark rate is 15 cents," says Tim Kelly head of operations analysis for the International Telecommunication Union. "American carriers could end up paying more than twice as much to terminate calls in foreign countries than they would charge in their own market if symmetrical accounting rates were abandoned."

An FCC spokeperson argued, however, for the benefits of benchmarking in promoting change: "In monopoly countries which are net recipients there is no incentive to change. American consumers subsidise foreign carriers because accounting rates are so far above cost. Even in a cost-based system, America would still be a net outpayer, but consumers would pay the true cost of calls."

Robert Koppel, head of international regulatory affairs, at WorldCom agrees: "Benchmarks pressurise foreign carriers to reduce rates and set targets. In competitive markets accounting rates are well below benchmarks, but in monopoly countries, they may be as high as $1 per minute," he says.

"This order has jump-started the process of cutting rates. The FCC took an important stance – it got out ahead of the curve. The ITU is not moving at the speed of the market and this does not cut it in the 1998 telecoms industry."

Indeed, US operators have since negotiated rates at or below benchmark levels with 19 countries. Another 14 have agreed to reduce rates in accordance with the FCC schedule. Together they account for over half of total outgoing minutes.

Critics, however, appear united in believing the FCC order is protective, inequitable and the methodology flawed. The international telecoms community is chiefly annoyed that the FCC has neither attempted to reform accounting rates nor address the fact that US operators make considerable profits from it. They believe that as accounting rates are determined by bilateral, consenting agreements between international carriers, the same process should be used for their reform.

"The FCC order is manifestly unfair because it maintains accounting rates and the 50:50 settlement rate split, but terminating calls in America does not cost 23 cents," says Maev Sullivan, a UK telecoms consultant.

"The FCC order has kick-started the debate. But it is not actively participating in ITU discussions. It is enforcing the benchmarks, but it is unwilling to engage in dialogue or to compromise."

US carriers exacerbate the problem they complain about. Their bills are inflated through technology-based services – call-back and refile – which reverse the apparent direction of a call. The benchmarks could, therefore, have the opposite effect to that intended.

Some 90 telcos have argued against the order. Telstra and others are challenging the FCC in the courts, arguing that while the order covers US carriers' costs of landing switched traffic it fails to tackle inflated fees charged to foreign carriers for landing internet traffic.

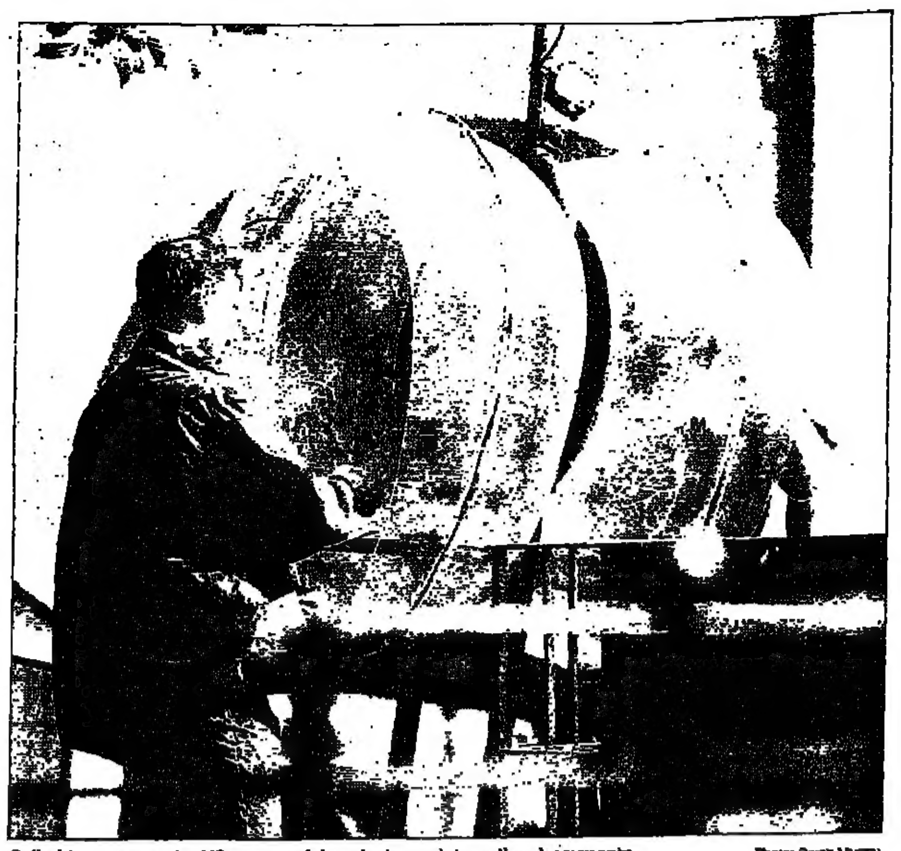
"Although the FCC says it is only setting US carriers' rates, it's a fundamental principle of law and justice that one country's regulator does not have authority to set anothers' payments," says Greg Staple, a communications lawyer.

"The market is already reforming accounting rates and has forced carriers to reduce rates. It is a more effective and dispassionate bully than the FCC. While the FCC is genuinely trying to act in the public interest, the immediate benefit is to American carriers. They have yet to show that rate reductions are being passed to consumers."

AT&T, the largest US long-distance carrier, not surprisingly supports the FCC move. Far from making unilateral decisions, it says, the US is the only country implementing consensual ITU recommendations.

"Carriers use alternative systems to get international minutes cheaper," says Tom Luciano, vice-president for international settlement operations for AT&T.

"Over the last three years settlement rates have dropped an average of 15 per cent a year. Prices to consumers have fallen faster than settlement rates, putting carriers under pressure to reduce costs across the board. AT&T can move closer to cost-based rates and reflect those in prices while continuing to grow international volume. We have negotiated benchmark rates with 31 countries representing 62 per cent of total volume."



Called to account: the US wants a fairer deal over international payments Photo: Sarah Murray

VALUATION • By Joia Shillingford

Putting the right price on a telco

Fashions come and go, and how to judge a company's worth is no exception

Telecoms companies can be valued in various ways. Which method is chosen tends to change along with investment fashions.

All valuations are about establishing a relationship between a company's potential and its stock market value. The simpler the valuation method, the more likely it is to be used by everyone.

Telecoms companies (telcos) used to be valued mainly by using yields and price-earnings ratios (P/Es). The yield is the telco's current share price divided by the share dividend payout, with the result expressed as a percentage. The price-earnings ratio is the market capitalisation divided by the company's profit after tax.

The yield method used to be more important for telcos than for other stocks because they have a higher-than-average yield. The old view was that telcos were slow-growing, cash-generative stocks that could return to investors any spare cash they did not need to re-invest.

Yields are easy to compare with other types of investment, such as bonds or bank interest rates. However, during the mid-1990s two other valuation methods began to grow in popularity. These were DCF (discounted cash-flow) and EBITDA (earnings before interest tax depreciation and amortisation).

DCF is used to work out the amount of cash a business will generate over the next five years. The idea is that if you owned a company you would have access to its free cash-flow – the money left after operational spending and capital expenditure but before paying a dividend.

The DCF value of a company is seen as the value of the cash-flows a business is expected to generate at present-day values. It involves applying a formula that takes into account not only long-term interest rates but also the level of risk associated with the projected cash-flows.

To obtain a definitive DCF valuation it is necessary to build a sophisticated model of cash-flows over the next five to 10 years and compare the results with the telco's current share price.

DCF is good from the point of view of being intellectually rigorous but the outcome is highly sensitive to variations in assumptions. Because DCF is a little subjective, EBITDA has become more popular.

EBITDA is essentially the profit made before depreciation charges, interest and tax, which are deducted o establish the company's cost of running its assets.

At present, EBITDA is one of the most popular ways of valuing telecoms companies because they are so capital-intensive, needing to make million or billion-pound investments in infrastructure. By contrast, P/E ratios are the most popular valuation method across the stock market as a whole because they provide a straightforward way of comparing one company with another.

Yet EBITDA has its limitations. Because telcos have to run a huge stock of capital assets the depreciation charge is much larger than for most companies. However, the way that depreciation charges are calculated between telcos varies considerably.

For this reason analysts have started to say, "Let's strip out the depreciation charges and see what we're left with". They are left with EVEBITDA, where EV is the market capitalisation and the debt divided by the EBITDA (or earnings before tax etc.).

The advantage EVEBITDA has is that it automatically adjusts for the variations in depreciation policies. It is a line of the profit and loss account which can easily be used for valuation purposes.

However, all valuation methods have their flaws, and many analysts are moving towards a holistic approach where they look at five or six different valuation methods before reaching a conclusion on a stock.

Telecoms stocks have risen over the past year: the price of some has doubled or more. But are they really different from other businesses? Maybe.

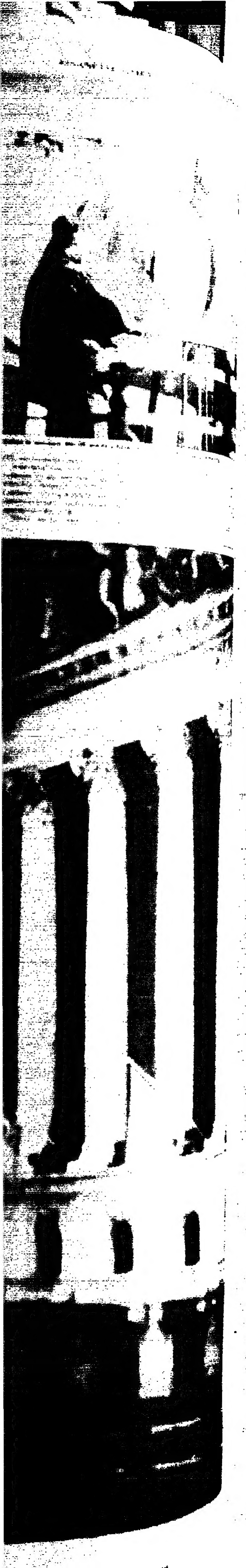
In turbulent markets many people look kindly on telcos. Because they generate a steady stream of cash they are seen as a safe haven for money.

There is also the potential for mega-mergers. Robin Bosworth, a partner at UK telecoms consultancy Schema, says: "Two factors that should be taken into account when valuing a telco are its potential revenue earning potential and its speculative value based on the likelihood that it will be involved in any mergers or acquisitions."

The potential for takeover has certainly added a premium to UK telcos such as Colt, which has an advanced fibre-optic network that would be attractive to rival telcos. Mr Bosworth says: "The global telecoms market is highly immature [following deregulation] and in need of further contraction before it settles into a mature and stable market."

However, there has been a huge swing in telecoms sentiment and there is a question of whether this will be sustained. In the short term a flight to safety from more volatile sectors makes sense. But once interest rates start to fall, stocks more sensitive to the economic background may be favoured over telcos.

It seems that just as there are fashions in valuation methods there are also fashions in market sectors.



MARKET REPORT • By Alan Cane

US still outperforming the world

There is a strong belief that strong profits will be made when the sector stabilises

The values of US telecommunications stocks have fallen sharply from the high points seen around the turn of the year but the sector is still managing to outperform the global telecoms market by some 9 or 10 per cent.

The complexity of the US market, however, is indicated by the differing performances of component companies. Airtouch Communications, one of only a small number of truly international mobile operators, was last week over 30 per cent ahead of its value at the turn of the year.

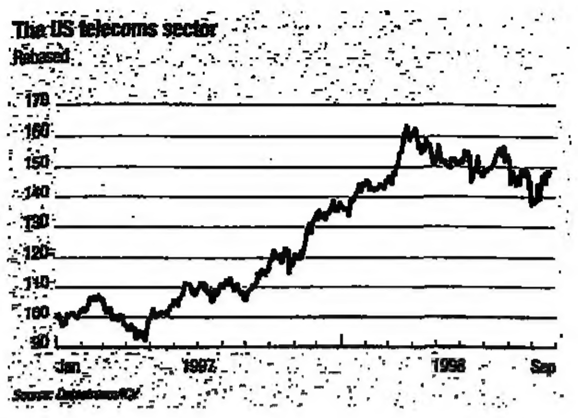
AT&T, the largest US long-distance operator, slipped almost 5 per cent from its January 1 value, however, while GlobalStar, one of the consortia planning to launch satellite-based mobile phone services, lost more than 50 per cent of its value over the period.

GlobalStar's lustre dimmed sharply this month with the simultaneous loss of 12 of its satellites when the Ukranian-made Zenit rocket which should have carried them into orbit crashed shortly after launch in Kazakhstan.

CIBC Oppenheimer, the New York investment bank, noted the day after the crash: "We continue to recommend GlobalStar Telecom with a strong 'buy' rating. We believe that a market exists for GlobalStar's services. However, as evidenced by (the) failure, deployment risk is very high."

The satellite-based mobile telecoms sector is indeed fraught with dangers. Iridium, the Motorola-led consortium which looked set to win the race to offer global services said earlier this month that it was delaying the launch of the full commercial service by just over a month due to technical difficulties. It will now open for business on November 1.

For many analysts, however, the US's fleet of competitive local exchange carriers (clecs) represent the best value in US telecoms. Clecs, which operate local exchanges in direct competition with the regional Bell operating companies – Baby Bells – saw their share prices hit a peak in July this year. Since then, they have slipped by some 40 to 45 per cent of their peak value.



Intermedia Communications, for example, was priced at about $45 in July; the shares have since fallen to about $28. Nextlink, trading around $42 in July, is now down about $23.

Les Levi, head of high-yield research at Chase Securities in New York, argues that the fall is chiefly technical: "The dynamics of the business of the clecs is exactly the same as it was in July. They have already captured a 3 per cent share of the local telephone market and that share is growing. This is an attractive sector."

According to Morgan Stanley Dean Witter: "The clecs have continued to demonstrate their success in penetrating the local exchange market by posting strong gains in access lines installed, solid revenue growth and advances to or through break -even at the EBITDA level. It favours ICG, Intermedia, ITC Delta-Com and GST.

The values of US clecs (and their equivalents abroad such as Colt Telecom in the UK) were boosted in the early part of the year when AT&T, looking for a way into local markets, bid $11.3m for Teleport, an independent local carrier. Direct local connections to customers are difficult and expensive to establish. Clecs therefore have substantial value to long-distance operators seeking to expand into local markets.

The equation can work in reverse. In January this year, SBC Communications, one of the largest and most acquisitive of the regional Bell operating companies, bid $4.4bn for Southern New England Telecommunications, a move which strengthens its position in the US north-east but also provides it with a foothold in the long-distance business. Southern New England's shares trading at $50 in January, rose to $71 this month.

The high, sometimes extraordinarily high, rating awarded to US telecoms operators reflects a belief that there will be strong profits to be made once the sector has settled down in the wake of the 1996 Telecommunications Act and an effective regulatory regime put in place.

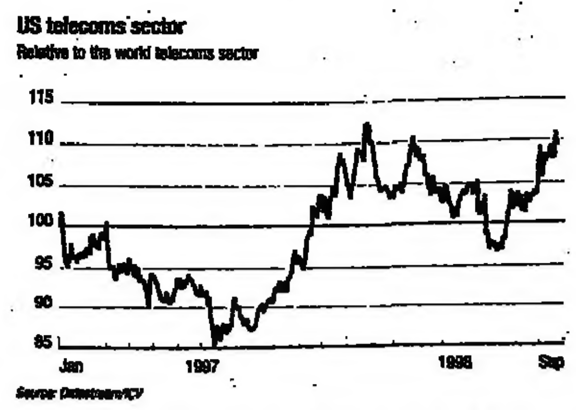
Some of the shine has been taken off by the current market perturbations which have effectively brought an end, temporarily at any rate, to high-yield or junk bond finance.

Many of the newer companies in the telecoms sector owe their initial financing almost entirely to the junk bond market. Too small for investment grade finance, they nevertheless have a healthy appetite for capital from the very beginning for research, development and to finance the building of their networks.

Today's market hiatus means that new start-ups may not be able to get the capital they need and existing, heavily leveraged operators may have problems expanding or servicing their debt.

The US mobile telephone market, with the new personal communications services (PCS) exploiting the advantages of digital transmission over the older analogue systems, is in flux. PCS operators are expanding coverage and features, forcing existing incumbent cellular operators to face serious competition for the first time.

Chase's Mr Levi believes PCS operators to be undervalued: "For some incumbents, later 1997 and first quarter 1998 have been particularly painful. For others,



the increased opportunity for roaming revenues and the higher customer awareness of mobile wireless products has been a boon."

At the other end of the spectrum, long-distance operations, AT&T acquired TCI, the largest US cable television operator. The Yankee Group commented: "AT&T's biggest problem is its relatively fragile position in its main market – long distance. It needs a local strategy and an internet strategy to fuel its growth... the TCI acquisition happens to be the best possible, if not the most complete, solution." With a joint venture in the offing with British Telecommunications, AT&T is performing well but remains a defensive stock.

WorldCom looks, according to Morgan Stanley Dean Witter, a strong 'buy'.

COMPANY IN THE NEWS: TELEFONICA

Grand design provides a clear focus

Success in Brazil has put the carrier in a strong negotiating position

Juan Villalonga, chairman of Telefónica, heaved a joyful sigh of relief when the Spanish telecoms company snatched the biggest prizes at the end of July in the privatisation of Brazil's vast Telebrás network. "From now on there is just only one global Latin-American operator, and that is Telefónica," he trumpeted.

The purchases vindicated Telefónica's claims to be *the* carrier in the Spanish-speaking world. "All the others are a long way behind," boasted Mr Villalonga as he surveyed the group's Latin American empire.

The pursuit of this grand design has given the Madrid-based carrier a clearly defined focus. It now delivers by far the largest amount of Latin American call traffic to the rest of the world, and this puts it in a powerful negotiating position with both US and transatlantic carriers.

The Brazil acquisitions had been planned meticulously. During May Telefónica raised $3.8bn in a one-for-11 rights issue – breaking capital-raising records on the Madrid market – in order to finance the Telebrás bids. Some 100 of the carrier's executives were in place in Brazil well ahead of the privatisation to sift through on all 12 of the Brazilian companies being sold.

The result was a $5bn buying spree in which Telefónica-led consortia won control of Telesp, the prized fixed-line business of São Paulo state and of Tele Sudeste Celular, the mobile operator in the states of Rio de Janeiro and Espiritu Santo.

In addition, Telefónica is set to manage a mobile operator in the state of Bahia that was acquired by Iberdrola, the Spanish power generator, and to hold a large stake in the São Paulo mobile business that was bought by Portugal Telecom.

Looking ahead, Telefónica is seeking a 10 per cent shareholding in Embratel, Telebrás' long-distance operator that was bought by MCI of the US. Such an equity acquisition would cement a strategic alliance that Telefónica clinched with MCI and WorldCom at the beginning of the year.

The purchases from Telebrás represent a quantum leap for Telefónica because they amount to more value and growth potential than all the combined might of other telecoms companies including those in Argentina, Chile and Peru – which are controlled by Telefónica Internacion (Tisa), the group's international division.

Fernando Abril, the group's financial director, reckons that Telesp alone is as big as Telefónica de España, the group's domestic division, was four years ago. The area the carrier covers takes in 34m inhabitants, which is only slightly fewer than Spain's population of 39m, and São Paulo's gross domestic product, which is equal to that of Chile, Peru and Venezuela combined, accounts for 38 per cent of Brazil's GDP.

According to initial forecasts Telefónica reckoned that Telesp would double its number of lines to 11m and quadruple its profits over the next two years. Similar growth in income through to 2000 was estimated for Tele Sudeste Celular as cellular subscribers in Rio de Janeiro and Espiritu Santo rose from 980,000 to 2.3m.

In arriving at such forecasts Telefónica is travelling along familiar territory, for it has established a reputation for turning around inefficient Latin American operators. It acquired CRT, a regional carrier in Brazil that was not part of the Telebrás franchise, in December 1996, and within a year turned round losses of $14m to a net profit of $100m. Net profits at Telefónica Peru rose from $39m in 1994, the year it was purchased, to $300m in 1995.

Given such a track record, it is ironic that Telefónica's greatest coup should have come virtually on the eve of sustained stock exchange turmoil that hit emerging markets hard. Within a month the biggest blue chip on Madrid's Bolsa saw its share price lose more than 40 per cent of its value.

What Mr Villalonga proclaimed to be proof of Telefónica's strength was viewed by nervous investors as evidence of the group's underlying weakness. He saw Telefónica's dominant position in Latin America as its best asset; they saw it as its worst liability. Instead of basking in the glow of investor appreciation, Mr Villalonga and his team have had to work hard to reassure fund managers that Telefónica's Brazilian adventure makes sound strategic sense.

At the time of the purchases from Telebrás, Telefónica said that it expected the acquisitions to dilute earnings by 2 per cent this year, by 3.8 per cent next year, and by 1 per cent in 2000, after which the new units would be earnings enhancing. Mr Abril, the finance director, believes that, in spite of the financial tremors now affecting Latin America, the outlook for earnings per share remains on schedule.

Mr Abril argues that, even in an extreme scenario of regional recession, the Latin American telecoms industry in the region will continue to grow. He says Telefónica is not significantly changing its budgets in the wake of the market turmoil, and that any lower revenues caused by sluggish growth will be offset by an attack on costs.

The logic of this optimistic argument is that telecoms penetration is so low in Latin America, and specifically in Brazil, that it will increase even in the direst economic circumstances. There are around 10 lines per 100 inhabitants in Brazil compared with about 20 in Argentina and Chile and a European average of 50.

There is a waiting list of some 5m lines in the São Paulo area, and Mr Abril argues that even in the event of a sustained economic slow-down there will be still be strong demand for Telesp lines. A telecoms company based in the mature European market could not ask for more.

Tom Burns / Madrid